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**U.S. Constitution Lauded by Correspondent in
Shanghai**

40050320b Shanghai SHIJIE JINGJI DAOBAO
in Chinese 6 Feb 89 p 4

[Article by Washington Correspondent Pan Muping
3382 1970 1627: "America's Greatest Fortune—Its Resolute But Flexible Constitution"]

[Text] Most people who have visited America proclaim its good fortune is its geographical location, abundance of natural resources, and climatic conditions. But in talking to an American friend I learned that this is contrary to what we think. My friend said: "Yes, the American People are very fortunate and there is no greater fortune than having their persevering but flexible Constitution."

To further study this "greatest fortune" of the American People, I interviewed an American friend who has worked in the United States Congress for many years (because of his work he requested to remain anonymous).

He completely agreed with what was said before and further explained that this imperturbability of the Constitution that was officially promulgated 200 years ago is that its basic principles have not been changed even to the present day; the so-called flexibility refers to the amendments that are continually added, keeping in step with the growth of the country in order to adapt to the ever-developing society.

In talking about the basic principles of the Constitution, my friend said that America's "Founding Fathers" were conscious from the very beginning that they wanted to prevent an "autocracy" or "dictatorship"—no matter if it is an autocratic monarchy or an autocracy by a majority party in a legislative assembly. The only way would be to form a "separated" government so that the power of one political group could not control the entire government. Therefore, they established a federal government with "separation of three powers." Each branch clearly possesses the power to restrict the other two branches. In addition, the federal government is balanced by the state governments, the Senate and House of Representatives in Congress mutually balance each other, and in both Houses of Congress the various different committees balance out each other. Furthermore, representatives of special interest groups and the tendency of the political parties to compete and balance out creates a mutually balanced system. History has proven that this system has effectively prevented any form of "autocracy" or "dictatorship."

He admits that there are downfalls involving policymaking in this system. For example, it is extremely difficult to attain a unified agreement concerning foreign policy, and many foreigners find it hard to understand exactly who actually represents the U.S. Government.

However, my friend believes that the strong point of this system lies in the people being able to effectively guide and limit the actions and the power of the administration. He brought up the example that the constitution stipulates that Congress has the power to levy taxes, to approve the budget, and pass on expenditures. The administration must obtain congressional appropriation before carrying out certain policies. This mandate requires the administration to clarify and justify the reasons for these policies and spending before it can take action upon congressional approval.... This procedure is termed "voluntary limitation mechanism."

Through my own experience I feel that policy mistakes do the most harm to the nation and its people. Looking at U.S. history as a whole, although there have been mistakes made in major domestic and foreign policies, the damage has been relatively light, especially in major domestic policies and legislation. This American friend believes that this can be attributed to the very complicated and time-consuming legislative procedures of the United States.

In America, translating ideas into a policy or law is fairly difficult. He explained that any citizen has the right to propose legislation, but bills can be introduced by the standing committees of both houses of the Congress (18 in the Senate, 23 in the House of Representatives), the President, the administration officials, or individual members of Congress. These bills are then handled by assigned committees according to the substantive matters contained. The committee first sends the proposal to a sub-committee for discussion and for arranging congressional hearings to hear the ideas of each side; People with opposing views often propose revised bills. After hearings or discussions lasting weeks or even months, the sub-committee votes on the proposal and return it to the committee. In carrying out these procedures on a broad scope where people are continually proposing various amendments, and with each intense arguments, at the same time additional amendments are proposed to the existing amendments. In this process, the information is simultaneously disseminated through news media so that everyone is informed.

After the designated committee agrees to a certain bill, it is handed over to both houses for open debate. Prior to this happening, the chairman of the committee conducts unofficial discussions with the top leaders of Congress, and turns the bill over to the "rules and regulations committee" for discussion to determine how much room there is for the bill to be revised. After the debate and the voting, the bill by the House goes to the Senate for review and approval, with the reverse also being true. Since the proposals of both houses must be in agreement, if there are differences between the two chambers the bill is then given to a coordination committee made up of equal number of members from each house for discussion. After the differences are resolved, then the bill can be returned to both houses for approval. During this process, administration officials and special interest groups

are continually promoting their ideas to influence the bill. Finally after gaining the approval of both houses the bill is sent to the President and becomes law after he signs it. If the President vetoes the bill, Congress can still override the veto but must have a majority of two-thirds of the members to do so.

As for this complicated and over-elaborate procedure, the basic thinking of the "Founding Fathers" was to prevent "bad ideas" from becoming policy or law and to prevent a small political group from controlling the government. A particularly important point is that if an individual wants to make his idea into a policy or law he must do a lot of public opinion work to cause a majority of people to believe that this is a good idea. Otherwise, he will not be successful in his wish.

Of course the price of maintaining this type of procedure is very costly and time consuming. Sometimes it would be better for government efficiency if power was consolidated with one person or a small group. But Americans know that the price of having full public discussions on important matters is reflected in a loss of government efficiency. This is a reasonable cost and one that the American people are willing to pay.

He also stressed that if there was no free flow of information, divergent views, or ideas, or we did not make this entire procedure public, then citizens would not be able to make correct decisions concerning problems. Therefore, freedom of the press is the foundation of this procedure.

NATIONAL AFFAIRS, POLICY

Contract Management System Faces Difficulties

40060321 Beijing JINGJI YU GUANLI YANJIU
[RESEARCH ON ECONOMICS & MANAGEMENT]
in Chinese No 6, 8 Dec 88 pp 43-44

[Article by Xia Chao 1115 3390: "My Humble Opinion on the Contract Management System's Predicament"]

[Text] Without a doubt, at the end of 1986, and especially since 1987, the spread of the contract system, especially the contract management system, has been brought to the fullest positive use in enterprise reform, and the benefits from this have been obvious. By the end of 1987, the system had been implemented in 77.6 percent of state-run large- and medium-sized industrial enterprises. The output value of these enterprises increased by 11 percent over the same period in the previous year, while sales revenue increased by 18.2 percent, which realized a 14.8 percent increase in profit tax, a 4.7 percent increase in the amount handed over to higher authorities. In general, everything was higher than that of the non-contract enterprises. In February, 1988, the State Council promulgated the "Interim Regulations on the Contract Management Responsibility System in State-Owned Enterprises and Industries." While this action affirmed that the contract management responsibility system was the direction towards which enterprise reform is heading, it further promoted the extensive implementation of that system. However, being a new management model, the contract management responsibility system is by no means flawless. It is not an exaggeration to say that, having undergone its test period, the contract management responsibility system is now in a predicament, indeed a dangerous one. Theoreticians must decide quickly on whether to resolve these problems quickly, or to find a new way. The purpose of this article is to discuss the critical situation that the contract management responsibility system is in, and draw attention to it.

I. The Difficulty of Determining the Contract Base Could Be Fatal to the Contract Management Responsibility System

Looking at the implementation of the system, determination of the contract base is going to two extremes. One extreme sets the base too low, thereby allowing effortless attainment; the other extreme sets the base too high, which creates the phenomenon of "whipping the fast ox," that is, making it difficult for the enterprise to fulfill. The roots of these situations lie in the method by which the contract base is determined. There generally are two ways of determining the contract base currently in use. One is the one unit—one rate method. This takes each enterprise's achievements for the previous year as the base. After considering various factors, an increase is set for a definite proportion. This method can be regarded as unscientific. If in the previous year an enterprise made the most of its potential, and achieved

what it did only through maximum effort, increasing the next year's base by a set proportion will make things too hard for the enterprise to accomplish. Consequently, this method is extremely unfavorable for those enterprises which achieved high economic benefits in the past few years and are now facing greater difficulties. Moreover, some enterprise managers, fearing too fast a growth rate and a subsequent raising of the contract base, intentionally hold back a bit so that the contract base is set at a figure which does not really reflect their enterprises' potential. The second method adopts unified measurements for different enterprises in the same industry, so that the contract base is set according to the average standard for the industry. This creates a situation whereby the difference in benefits are not caused by the enterprises' active efforts but by the nature of the enterprises—those with high potential which temporarily do not require technological improvement versus those with low potential which urgently require technological reform. Moreover, the unbalanced development of productive forces, the irrational distribution, the huge gap between supply and demand and the differing period in which enterprises enjoy state preferential treatment could cause unfair advantage and disadvantage to both enterprises in the same industry as well as those in different industries. This difficult problem of resolving the contract base could prove fatal to the contract management responsibility system.

II. Short Term Actions After Contracting Are Difficult To Control

Whenever an enterprise implements a contract management responsibility system, the period of the contract generally runs from 3 to 5 years. Because this is a relatively short period of time, enterprises, on the one hand, have difficulties in achieving great progress in developing production and raising economic benefits, while on the other hand, worrying about policy changes, tend pursue short term profits. Within the period of the contract, managers will still take certain economic risks, aware that good management will be rewarded, while poor management will bring penalties. During the period of the contract, the increased value of fixed capital will not bring any great advantages to the contractors when the contract expires. This way, contractors generally are only willing to consider current assets, with no consideration given to the enterprises' long range development. This even extends to the point of risking equipment, "hoping the chicken chooses the egg." Some are now proposing that the time limits of contracts be lengthened; but even if a contract is extended by a number of years, in the end it is limited, and ultimately cannot guarantee that the present contractors will be reappointed. Furthermore, if the period of the contract is too long, there will be an increase in the economic risks for contractors, due to outside circumstances difficult to anticipate. This will especially be the case during periods of system changes when there are constant fluctuations in such factors as prices, interest rates, and state economic policies.

III. The State's Failure to Fulfill Its Contractual Obligations Affects the Enterprise's Accomplishment of Its Contract Goals

Enterprise contracts are concluded chiefly with the state, with the state's contractors acting on behalf of relevant departments of the people's government. The contract, in addition to stipulating the enterprise's rights and responsibilities, likewise sets out what responsibilities the state should fulfill for the enterprise. If the petro-chemical industry contracts with the state to produce so much gasoline, diesel oil, etc., these are responsibilities which enterprises should fulfill. However, in order to assure that enterprises can readily accomplish their contract targets, the state must guarantee a corresponding quantity of crude oil be supplied annually, this is a responsibility of the state. In reality, the state cannot guarantee crude oil production and hence supply at a quantity determined by the contract for the enterprise to accomplish its contractual goals. Therefore, the state generally finds it very difficult to fulfill its responsibilities. Given these conditions, whether rewards and penalties should be meted out to enterprises according to the conditions of the original contract or should special circumstances be taken into consideration becomes a question. Apparently, it is unreasonable to reward or punish enterprises according to original contracts. If special circumstances are taken into consideration, then the contracts need to be revised. If the contract is revised annually, it will load the work with trivial details, and the original sense of the contract will be lost. How to take special circumstances into consideration or what standards should be used are very complicated problems.

IV. The Bonus Taxation Policy Stifles Worker Enthusiasm by Not Giving Them Income Increases Which Are Based on Increased Production

The objective of the contract management responsibility system is to separate the right of management from the right of ownership, in order to facilitate the allocational relationships among the state, the enterprise and its staff. It is intended to ensure that the enterprise's reserve profits and the staff's income will vary according to the degree in which the contractual mission is fulfilled. We know that the tax on bonuses serves to deter enterprises from recklessly awarding cash bonuses, and was established as a control on the consumption of funds. Other than exemptions for economizing on the cost of materials, for state-sanctioned, regulation-permitted technological innovation and rationalized proposals, all monetary awards without exception are subject to the tax on bonuses. Moreover, if the bonuses awarded are in excess of an enterprise's total standard staff wages for a 7-month period, the tax on bonuses is levied at a 200 percent rate. And, since the total standard enterprise staff wages are set at parity by the state, they are basically stable and inflexible. So, no matter how an enterprise may overfulfill its contractual quota, it still can act only according to approximately the same total wages, and make awards which total less than 7 months' wages. For if the awards are more than that 7-month total, how

indeed can enterprises afford that 200 percent tax? When viewing from this angle, it becomes clear that the bonuses for enterprise staff are basically unchanged from year to year. Along those same lines, we see that by not basing increases in staff income on increases in production dampens staff enthusiasm for production.

V. Inflation Has Put Enterprises in Unprofitable Circumstances

The contract management responsibility system was intended to reduce administrative interference imposed on enterprises, and give them a free hand to manage production. The state was to create a sound, stable, external social and economic environment for enterprises. However, the price reforms of the past few years have resulted in sharply escalating prices and severe inflation, which in turn have created extreme difficulties for the production management of enterprises. To blindly stress that the enterprises absorb the higher costs internally made it difficult for enterprises to follow orders. Even though there have been notable results from the contract management responsibility system, in reality these have not offset the momentum of inflation and massive price increases. Sharp price increases for raw materials and electric power, plus food subsidies on top of the upcoming housing reform and increased transportation costs, can easily gobble up whatever benefits an enterprise may earn. Therefore, whether controlling prices and eliminating inflation or undergoing frequent contract revisions or taking prices into consideration when drawing up contracts has become a knotty problem.

JINGJI YANJIU on Ten Years of Reform, Part Two

HK1603070189 Beijing JINGJI YANJIU in Chinese
No 12, 20 Dec 88 pp 10-28

[Article by Hua Sheng 5478 3832 and Zhang Xuejun 1728 1331 6511 of the Institute of Economics Under the Chinese Academy of Social Sciences and Luo Xiaopeng 5012 1420 2590 of the Development Research Institute Under the State Council Rural Development Research Center—"Ten Years of Reform: Review, Reflection and Prospects"]

[Text] —Part Two: Reflection (Part One on Review was published in Issue No 9, 1988 of this magazine, and the first two sections of Part Two: Reflection were carried in this magazine in No 11, 1988; due to space limitations, rather large deletions were made in this issue in the subsequent two sections of the part on Reflection and the part on Prospects.)

III. Actual Practices in Socialism (Part One); Composition of the System of Rights Under the Traditional Mode

Seen as a whole, the composition of the system of rights in socialism's traditional mode consists of the following characteristics:

1. Lack of economic operations of ownership right: economy of functional power centralizing economic surpluses.

(1) Existence of property right in name and function power.

Property right or ownership right is a sort of exclusive right over property. Seen from this aspect, internally in the system of ownership by the whole people, property right in the strict sense does not exist. Despite the fact that in name, constituent members of society with citizen's status are all owners of social properties and therefore should enjoy the owners' rights, in fact the indivisible subordinate character of properties of the whole people not only cannot be clearly demarcated but also cannot become the general standard for transaction and exchange relations between the individual members. Therefore, since socialism has completed its transformation of private ownership and established an economy of ownership by the whole people, this concept of ownership right and the economic relations it reflects in reality exists in name only.¹

The problem is that although property right has vanished, the economic conditions forcing people to invent property right and thereby the economic law itself have not vanished because of it. This implies that as long as man still has individual interests (which is man's nature as an individual) and social wealth and resources are still relatively scarce (economics generally points out the relative scarcity of external resources, whereas in reality, speaking in a definite sense, the latter comes from the shortness of man's life span), then the competition engaged in by man to possess and enjoy this wealth and these resources still needs to be restricted and demarcated by certain social forms, otherwise social wealth will be wholly consumed by this meaningless competition. Therefore, after the abolition of property right, the simulation of ownership right, or seeking a replacement for property right relations, becomes the innate demand of the economic process itself. What people have usually said about the state having too much control or the economy being dominated by administration originates from this.

Seen from the point of view of history, using functional power (state's administrative power is its leading form) to take the place of the functions of property right is not the original intent of socialism. Like all other great revolutions in human history, the socialist revolution is not the product of a minority of people fighting for power and privilege but is a movement for reforming the system, under the encouragement of a search for a new ideology. As soon as socialism was born, it began to follow the blueprint of this movement to employ the system of all-round state ownership and mandatory planning and management to control the whole economic process. However, only after the state had centralized all the economic surpluses and achieved the system of state ownership in the economy did people begin to

discover that in the production stage of the present and the foreseeable future, there is no way to carry out mandatory planning solely through material management. Under the conditions of the nonexistence of property right, society basically has no way, in the activities of the various economic stages, to solve the problems of mankind's power-endowment basis (without elections, or with elections in which the elected at various levels are responsible only to the electors of their various spheres, the system of state ownership would disintegrate) and the sources of motive power (distribution according to work cannot solve the problem of the selection and the qualitative and quantitative measurement of the contributions of talented people exercising various management functions). Thus, with the state acting in the dual capacity of concurrently performing the function of being the society's formal representative and being the sole or principal owner of the means of production, extending the state's administrative power to the economic sector so that the economy can at least operate in some form has become an unavoidable historical and logical procedure.

More generally speaking, in principle there are two ways of earmarking people's relations of rights and interests in a society. One way is earmarking by means of property holdings, and this is the standard of property right; the other way is earmarking by position.² The latter is the natural product of the system of division of work. Since division of work has a vertical division (that is, high, low, upper and lower levels) and also a lateral division of work (that is, specialized division of work) which is of an even larger volume, functional power originally could not be all administrative power. That functional power becomes the systematic power as society takes over ruling status and subsequently transforms into administrative power is the natural result of the state monopolizing the ownership right of the means of production and bringing about the existence of property right in name only and the formation of the center of unified power.

Functional power's replacement of the function of property right is manifested in the following: Under the conditions of the nonexistence of property right, it can independently mark out mankind's relative position in social production and solve the problem of the endowment or source of the power to dispose of properties and make use of functional boundaries to mark out the limits of mankind's disposal and operation of properties. Of special importance is the fact that functional power provides a motive power system that is independent and is more or less in symmetry with the scope and responsibilities of mankind's handling of properties, and thereby provides economic operations with the necessary stimulant mechanism.

(2) The three essential elements of functional power economy: Grades, regulations, and orders.

The traditional socialist pattern is a sort of economy of functional power with which the state centralizes economic surpluses. Under this pattern the various countries carry out the system of delivery to the treasury of the profit surpluses (that is surpluses after deducting certain fixed sinking funds of the plants and factories, as in the Soviet Union) or all of the profits (as in our country). This practice centrally reveals the economic nature of the system of state ownership whereby the state undertakes to handle or allocate the economic surpluses and shoulders all of the risks. In this economy of the delivery of the surpluses, the rights and privileges of the individual are determined by the position he occupies in a stated organ. The basic differences between functional power and property right are: First, the essence of function or functional power is a kind of right and privilege to possess or hold for use properties earmarked by function, that is, a special form of holding for use, and consists of definite power given by this right and privilege to holding for use to the holder or possessor. Therefore, unlike the nucleus of property right, which is an exclusive benefit right, the nucleus of functional power is exclusive holding power, that is, property allocation power. Property owners may give up the power of property allocation and obtain even larger benefits, but if the position holder gives up the allocation power, then he will lose all. Second, the property benefit right is the property owners' legitimate right and interest and is the source of the motive power of the property owners' untiring efforts. But the benefit right of function, or functional power, is not the legitimate right and interest of the holder of functional power; on the contrary, this kind of benefit is benefit obtained on behalf of the structure or society by the position or function itself according to the stipulations. So far as the holder of functional power is concerned, it is a kind of responsibility or obligation. His individual benefits are singly provided for in advance, according to a stated position. Any attempt to convert functional power to individual benefit is constantly guarded against. Third, since property right and holding or using the properties can be separated from each other, they are subject to exchange, whereas functional power and position holding cannot be separated from each other and are not subject to exchange. This greatly reduces the possibility of entering into contracts in the functional power economy and also greatly reduce the possible spaces for exchange. From this it can be seen that as in the case that when property right is taken as the basis and a model of a market (exchange) economy is always formed, taking functional power as the basis builds a huge edifice of a planned (adjustment and appropriation) economy of a mandatory nature. Indeed, the outcome is not accidental.

Under the conditions of the state centralizing the economic surpluses, maintaining the operations of a stable functional power economy requires three basic essential elements, namely, grades, regulations and orders.

In a functional power economy, the central government is the only planned center for endowing power; therefore, even if a position is formed by division of work or is set

up for the sake of the division of work, very soon a difference between high and low positions exists (cadres are "controlled" by the central government or by the provincial or municipal governments, and being "controlled" by whichever grade at the same time determines whether the "controlled" personnel has a high or low position). The fact that grades can be generated is because in a functional power economy, as in general administrative management, the source of power giving is unified.³ Therefore, the transmission of the compulsory and monopolistic nature of the state's administrative power to the functional power in the economy is an unavoidable phenomenon in a functional power economy.⁴ The necessary nature of grades is, on the one hand, natural, because management at various levels or grades can achieve economy in information expenses and, on the other hand, and even more importantly, grades can lower the system's operation expenses. Grades solve the problem of the flow or circulation of personnel between positions not subject to exchange. Therefore, when people universally criticize the phenomenon of transferring certain unsuccessful plant heads to another locality, they have perhaps not noticed the other side of this obvious drawback of the system, that is, that movement of personnel of the same grade or rank lowers the cost of production in the system. From this grows another function of grades, and this is that they more or less solve the problem of the anticipated stability of personnel in the functional power economy. The so-called "platform" theory of picking and promoting cadres is another way of talking about stabilizing what is anticipated.

Grades provide the functional power economy with a considerable integrated character. They form an integrated system that radiates from a power center, or source of motive power. They make each and every person engaged in activities in an economy under the system of ownership by the whole people become a state employee of a definite grade or class. Any person or organization not belonging to or "linked" with a certain grade cannot exist or even be born or generated. Grades provide an important basis for the distribution of scarce resources when there is no property right. People's income and their standard of housing, medical facilities, travel, and other "working conditions" and the scope of their contact with information and intelligence, in short, how they are treated in life and at work, are all fixed by grades.

The second essential element in the operations of the functional power economy is regulation. Regulations are necessary because under the precondition of the state acting in the capacity of owners under the system of ownership by the whole people and exercising their functions, as executors of state functions, government officials at various grades or levels are not the legitimate beneficiaries of the properties owned by the whole people. Grades can establish officials' individual treatment and the scope of properties subject to their disposal or allocation, but this still does not touch upon the disposal

or allocation of the great proportion of surpluses. Therefore, regulations are required to further earmark the rights and interests. The special feature of regulations is that they are aimed at the average (not specific) person or event and possess a neutral character. After their formulation, regulations are usually of a stable nature. Moreover, the regulations formulated by the state often carry legal effects. However, it should be explained that formulating and executing the regulations of a functional power economy are totally different from "governing the country by law." Whether or not a state is governed by law is determined not only by whether or not the country is governed by legal statutes but also by the regulations generated by the legal statutes and the procedure for changing them. If the legal statutes themselves are the manifestation of the wishes of functional power, then the attempt to use the law to restrict this power can hardly yield results.

In spite of this, regulations play a pivotal role in a functional power economy. With the lack of property right, regulations form the principal restrictive force in the economy. After functions have earmarked the natural conditions of individual units and individuals holding and using resources, the basic functions of regulations are: First, earmarking the rights and interests of individuals at various grades and at various positions, and preventing individuals or individual groups from utilizing their positions to infringe upon the interests of the state or society; second, clarifying the limits of this holding and use of resources and protecting the exclusive character of functional power's holding and using of resources; and third, earmarking and fixing the power limits and procedure of distributing the surpluses in the economy. Since regulations employ the same yardstick in treating different conditions, their innate character is "applying an identical measure in all cases." In the socialist traditional economic mold, the main direction of regulations is protecting the centralization of the economic surpluses by the state. Hence the first and foremost principle of regulations is the absolute demarcation of the individual's income and the production rate of individual units, and enforcement of unified distribution and unified allocation (of people), unified receipts and unified outlay (of finance) and unified purchase and unified marketing (of good). Their most detailed portion is the clear demarcation of receipts and expenses and the explanation one by one of the expense standards under various conditions. Nearly all of these regulations consist of "mandatory regulations" stipulating what people can do or how they should do things and seldom give people the selective space of "prohibitive regulations" and "selective regulations." This is because regulations, serving in lieu of the property right to demarcate the interest borders cannot be the least bit unclear. The incident cited of the head of a large plant with millions of dollars in assets had no authority to order the building of a simple lavatory was not due to the foolishness of those formulating the regulations but reflected the assurance of the realization of the demand in economics of the system of ownership by the state.

The third essential element of the functional power economy consists of orders or planned orders. They are the regulations governing individual economic activities or acts and are particularly applicable to areas in which the objects of the economic activities change frequently and thereby require constant readjustment. If it is said that regulations and grades principally replace the functions of property right, then orders not only supplement the insufficiency in regulations but also replace the market functions. With the lack of property right and the abolition of selection and free exchange by individuals, only orders can effect changes in quantity and value of all the economic activities and can coordinate equilibrium in the flow of goods and equilibrium in the value signals (so-called financial and currency signals). In this equilibrium the state's planned prices are the pivotal body of the orders; they ensure that all the economic activities absolutely obey the adjustment and arrangements made by the administrative center.

It should be pointed out that orders are by no means entirely the products of what one would like. In the functional power economy which cannot exist in market assessment or evaluation, orders try hard to bring out the social evaluation and assessment inherent in this type of economy. For example, mandatory plans are ordinarily compiled according to the principle of the so-called "base figure method" (that is, using the target figures actually completed or distributed in the preceding period as the basis and make the necessary additions or deductions). Despite the fact that this brings along the problems of undesirable effects (it has the tendency of concealing the production capacity) and "whipping the fast ox," it is the only feasible method in an economy which does not possess market assessment and evaluation. Moreover, with the state centralizing the economic surpluses and therefore the partial interests having little economic significance, its passive role is still limited.

The flexible character of orders in contrast with regulations reduces the impediments and friction in the operations of functional power economy and at the same time makes possible the practice of price negotiations. To a large extent the Hungarian economist Kornai's famous "assumptions of soft budgeting's restrictions" were derived from this. But it should be pointed out that even in cases of price negotiations causing violations of regulations, this flexible character still has its positive side, because softening of budget restrictions is a knife with two edges. It has a passive role (such as distorting the conduct and anticipations of enterprises and other economic heads) and also to a definite extent serves as a lubricant to ensure the smooth operations of an ossified structure. Orders' real difficulties consist of contradictions caused by the system of state ownership requiring the centralized character of policies and the ability to collect, process and deliver news and information steadily diminishing following the expansion of the enforcement scope of the orders and increase in the stages of delivery.⁵ Town and township cadres have found treasure caves in many of them. However, because

of the small scope of the orders, their vitality in suiting the changes and developments in external environments are stronger than state-owned enterprises). Hence, even in the interior of a traditional mode, there are so-called "reforms" of delegating power and retrieving power, that is, level changes in the issuance of orders.

Actual practice in the socialist traditional economic mode has shown that a functional power economy which has grades, regulations and orders forming its basic internal nucleus is destined to long-term stability. However, eventually as time goes on, its operation increasingly requires a high production cost for the system and losses in efficiency as the price to be paid. This is because in a functional power economy which lacks the standards of property right, there are certain deep and unconquerable contradictions.

(3) Two defects in a functional power economy.

First, with reference to the non-self-governing nature of its restrictive form.

When rights and interests are demarcated by property, the benefits and losses from the use of property are borne by the property owners (that is being solely responsible for the profits and losses). This makes people, based on their own self-interests, not only do the utmost to find opportunities for profit making but also meticulously calculate the various production costs, including possible risks. Each and every economic main body consciously forms effective restrictions over its own acts. Hence, an property right economy can be comprehended as a "self-governing" economy. However, in a functional power economy, due to the position's power and authority and the employment of the power which it brings along in handling properties cannot give the occupant of the position the corresponding legitimate benefits, that is, remuneration of the position and the benefits from employment of the functional power to handle the properties are two entirely different things in nature, the individual's interests, power and responsibilities must be separately demarcated. Speaking from this context, grades, regulations and orders are all tactics coming from the outside to stimulate and keep in check the incumbent of the post. Therefore, we may consider a functional power economy to possess a compulsory nature.

A direct loss brought along by the compulsory nature of a functional power economy is that it depresses man's creative activities and progressive intentions, hinders people's search and tapping for new economic surpluses and causes stagnation in technological progress and creating new organizations. Creative activities frequently are in conflict with established concepts and rules and at times even call for paying the price of "violating the regulations." On the other hand, the regulations and status of grades and ranks in force in a functional power economy not only cannot provide the

motivation and conditions for creating something new but also are the shackles of creative activities, unless the tasks assigned from above do contain requirements for creating something new.

With the state centralizing the economic surpluses and thereby severely restricting power of a position from giving the individual extra benefits (illegally, or non-conforming with one's position or rank, obtaining private gains runs great risks), promotion in grade or rank becomes the main motivation of the incumbent in a position. But experiences have shown that the man-power capital input required for obtaining a promotion and the man-power capital required by an organization in obtaining the maximum economic surplus have never coincided and very frequently have a very small relevant character. On the other hand, on the part of the majority of people who cherish little hope of promotion, reducing the labor input when performing a job is the only way of lowering the individual's cost of production. From this we can derive the first law in functional power economics, namely, in a functional power economy, seeking an advancement opportunity calls for the maximum input of manpower capital and for "mere performance of duty" the minimum input is needed.

The obvious deviation, at least in form, between functional power and individual benefit no doubt increases bargaining in this economy that is, the trend toward budget softening, because bargaining by the incumbent of a low-grade position is not looked at as a selfish act; on the contrary, to a very large extent it is considered as a manifestation of performing one's duty.

Naturally, the phenomenon of soft budgetary control (obviously this is not the nature since soft control is planted in the relations of property right) more directly comes from the trend of increasing the cost of production in a functional power economy. In an economy of the centralizing of economic surpluses, economy in production cost and the increase of surplus give little benefits to those in charge of the economy. What people go after when conforming with the regulations and fighting for relatively more advantageous orders, is the utmost increase of the cost of production, because their interests are principally in the cost of production and not in the surpluses. thus, a well-known experience is economic policy making people being concerned not with worthiness or unworthiness but with if there is a way of clearing their expense accounts. And when investing, risk is not the first consideration but what is primarily concerned is if there can be an increase in the use of resources. The result of the development of such a condition is that it leads to a vicious cycle: more or less like a slave destroying his tools and forcing his master to supply him with a more cumbersome tool. The trend to increase the cost of production makes the regulations of the functional power economy become daily more loaded down with trivial details and ossified, resulting in such foolishness as stipulating that "money for buying sauce cannot be used to buy vinegar," "earmarking

money for buying coffins only and not for buying medicines," "rather reproducing antiques and not producing new ideas," and "rather freezing technical progress," than giving people some leeway to map out their own plans. It can thus be seen that under this sort of a structure, overly strict control is not the only point, it is a death warrant to all concerned. From this we can derive the second law in functional power economics: In a functional power economy what an economic unit looks for is not the maximum surplus but, under the restriction of the regulations, the maximizing of the cost of production and of the use and deployment of resources.

Second, and this has reference to the closed nature of a functional power economy.

In a functional power economy, the only possible method of managing the economy is to demarcate between the departments and the localities. Basically an enterprise is not an economic organ in which the management cost is relatively lower than the market exchange cost but is a factory and even a workshop formed by natural demarcation for geographical reasons. Employment of the assets is totally closed in form and the assets are sedimented once they are thrown in. When the relations of the property right are unclear, the legitimacy of people's use of the assets (including manpower capital) comes from, and only from, seizure for use. Seizing more for use and proving one's need for doing so are the main tactics in the scramble for scarce resources. The circulation of resources, particularly of assets, is mainly a vertical one, with the upper level giving and lower level taking. The lateral exchange of resources lacks motivation on the one hand (people's leading direction concerning interests is responsibility to the upper levels and not to economic rationality) and only finds trouble for itself (such as causing many inconveniences to the subordinate system of departments and localities and possibly affecting one's share of resources from now on) and, on the other hand, the legitimate character is lacking (the necessity of exchange is equivalent to criticizing the errors in budgeting and, besides, things that one does not need should be delivered to the upper level and not for exchange). Demarcation and division between the departments, localities, and grades lowers the status of money to that of numerical signs for calculation purposes and not that of a thing of an equal value, because large quantities of scarce materials are distributed according to departments, localities, or grades and cannot be purchased by money. The ruling on price-fixed being determined by the cost and profit and rate of management at various levels or grades gives the same kind of product a different fixed price in different localities or different grades or levels (for example because of the different costs of production). Hence, in this sort of economy the largest exchange that can be contained is barter exchange or exchange of goods for goods and not free trade, because the kind of currency in circulation in different grades or departments and localities has an unusually different "gold content." By so

doing, things have changed to the shape we see today: society holding the means of production reverted to the form of the socialization degree in the employment of the means of production being the lowest.

2. Double distortion in civilian right: attachment of the person and special privileges of status and position.

In the broad sense of civilian right or a citizen's right, aside from the citizen possessing the ownership right of property that is regarding material capital, a citizen as a constituent member of society owns two principal rights and privileges. One is the rights of the person. Due to the inseparable character between manpower capital and the person and manpower capital increasingly becoming the direct source of wealth, the modern sense of the integrated rights and privileges of the person increasingly stresses man as related to the ownership right of the manpower capital of his own person, that is, the rights and privileges of free disposal of his person and manpower capital, such as employment selection, choice of residence moving, exchange, enjoyment of education and social welfare benefits, and so forth. The other consists of the democratic rights in politics. In general, this consists of the rights and privileges of speech, assembly, association and participation in political activities. Although democracy is far from being like economics in easily construeing in precise definition.⁶

Under a traditional socialist structure, a citizen's rights have an exceptionally special composition.

(1) Formation of attachment relations.

In a socialist country, workers generally enjoy the privileges of education, participation in labor and receiving remuneration therefrom, but this does not imply that a worker can at will make arrangements for his own manpower capital because the latter is not determined by legal regulations but by the realistic economic relations, particularly the form of holding in hand material capital. Generally speaking, the workers' loss of the power to handle their manpower capital and becoming appendages of other people require the simultaneous coexistence of two conditions: First, the workers do not have individual properties (means of production). Their manpower capital can be realized only through lending help from other people's services. The services mentioned here can be providing the means of production directly or providing in social form the combination of manpower capital and means of production. Second, all these services are under monopolistic management, that is, the laborers have no leeway to make any choice. Obviously, under the traditional socialist system, due to the abolition of the individual's ownership right, the state monopolizing the control and management of all the means of production and its controlling all social activities, the universal attachment of the individual citizens to the state is unavoidable.⁷

Perhaps because of the influences of certain historical conditions (strong feudal tradition, being extremely backward economically, enormous population pressure, and so forth), in China's traditional socialist economic pattern, the citizens' appendage or attachment to the state at one time reached an unusually extreme degree. First, this is illustrated in the completeness of the appendage relations. To a certain degree it may be said that since a man's infancy many of the roads of his future life have been mapped out for him. Except for a few persons who luckily can gain admission to a university and therefore still have a choice once in their lifetime, it seems that people really have no leeway for selection. Even though in certain areas in which people seem to have the freedom of choice (such as finding a spouse), yet because of the fixed character of abode and occupation people must yield to the fate of pre-determination (this is particularly true in the rural areas). In society there is not a single unit which is not established by orders from the state. All people are directly or indirectly subordinate to these units. Employment, wages, residence, education, medication, forms of savings and even amounts of retirement funds are all determined and outside the individual's selection. Moving to another locality and making job adjustments, even though possible, are incomparably difficult. It can be imagined that when people are located in such an environment of wholesale attachment relations, any budding of democracy, though appearing temporarily, will soon die a natural death.⁸

Second, correlated to the character of completeness of the attachment relations is the monopolistic character of the evaluation of manpower capital. In a society in which property right does not exist the state is the only lord and master in the hiring of manpower capital and the market assessment of manpower capital is missing. Taking the place of market assessment or evaluation can only be social assessment of the labelled type combined with individual assessment made by the leadership officials. On the one hand, the state has a limited understanding of manpower capital as a whole and the only assessment rules to follow are to assess according to the labels of service years, grades or diplomas. Result: Assessing according to service years encourages the trend of making the minimum efforts; assessing according to grades and ranks stimulates the urge to seek official posts; while assessing according to diplomas arouses society's "diploma fever," driving people to bend their efforts, and even to disregard any costs, to obtain diplomas. On the back of these various labelled assessments which are divorced from actual value are the frightening waste of manpower capital resources and making erroneous directions.⁹ On the other hand, supplementing these various types of labelled social assessments is individual assessment made by the leadership officials. The principal drawback of this individual assessment is not its subjective character (because this is where its flexible character lies and, besides, even in a market economy assessment of manpower capital must also be realized through man's subjective form), but is its character of monopoly and lack of competition. All these officials

making the assessments are not subjected to the restrictions of ownership right or market pressure, and between them there is no competition. This kind of condition makes it difficult to avoid distorted assessments of manpower capital not only in countries like China, where labor force is surplus and its circulation is difficult, but also in the Soviet Union and the East European countries where labor force is limited and hence workers can easily circulate.¹⁰

It can be easily seen that when workers, concerning matters such as improvement in their posts, status, ranks, wages, residence, and welfare and survival conditions, all have to rely on the leadership of the units, attachment is definitely not a merely general concept in the abstraction of the economists.

(2) A citizen's status and special powers of position.

In the socialist traditional mode, although a worker has basically no power over the disposal of his manpower capital, yet as a citizen he enjoys certain special privileges. This is principally because the state is expected to unconditionally take up various kinds of social obligations such as providing citizens with employment opportunities, medical insurance, retirement protection, residential conditions and even stable commodity prices. The state's obligation of providing the citizens with all-round insurances is reciprocally supplemented by the citizens' appendage relations to the state. Moreover, the extent of this kind of insurance provided is frequently directly related to the citizens' appendage character. For example, because the state's financial power cannot afford to cover in a unified package the whole body of citizens (despite the fact that for many times this kind of thinking and attempts have been made), the necessity is generated of earmarking among the citizens their status or literally "ji" [4694]. Thus status of various kinds have emerged such as cadre status and worker status, whole people status and collective status, large collective status and small collective status, not to mention the wide gulf existing between city and town status and rural village status. These various kinds of status correspond with the different degrees of the insurance provided. The lower the status of a citizen, the more lax (definitely not in a proportionate manner) at times the appendage relations (such as peasants are allowed to have certain means of production such as retention of a small lot of farmland). "Ji" is a kind of man's fixed status, at an equal value to a definite treatment level but cannot be bought by money. The state has special and sole right of endowing "status." Subject to the condition of having been sanctioned the same status of workers and peasants under the system of collective ownership in name can be transferred on a basis of equality from one collective (system of ownership) to another entirely irrelevant collective (system of ownership). Hence, the proverbial everybody eating from the same big pot and iron rice bowls denote only a higher form of "status" and represent the common saying about the "all-people status," and in essence they are not one-sided gifts or

endowment, but in reality are goods in exchange at equal value with the attachment relations. Only when citizens are artificially divided into different status is the iron rice bowl admired by people as an excellent endowment or special privilege.

As for the system of ownership by the whole people itself, the special privileges of a "ji" or status of the whole people may be recognized as, under the conditions that property rights cannot be individually demarcated, the form of conversion by the individual of the property rights of the whole people. Only, the conversion of these privilege forms is overshadowed by the existence of different kinds of status and pays the price of an extremely high social cost of production. Under this kind of conversion, idling in posts and having more hands than needed frequently occur in the economy while the social trend is making the minimum efforts in doing anything. On the other hand, the special privileges of the status converted from the property right under the system of ownership by the whole people innately demand a sort of distribution in equality or egalitarianism (ownership by the whole people means that everybody has a share) and when these sorts of privileges cannot be independently earmarked in terms of money (in our country, the various kinds of welfare protection or benefits such as housing, retirement, direct and indirect subsidies are, through varying ways and means in liaison with the rights and privileges of the status in drawing the salaries and wages), not only is the real production cost of labor seriously distorted but also this system of crystallizing all the means of existence of the workers in their status undoubtedly further augments the citizens' attachment to the state.

However, just like exchanging appendages or attachments for all-round insurance, along with the state monopolizing all the employment tactics the citizens themselves also begin to develop the monopolization of their posts or jobs. After clearing away all the fears about unemployment, dismissal, and bankruptcy, so far as the great majority of the citizens are concerned, opportunity and risk, motivation and pressure also vanish at the same time. Those citizens who are "patient enough" will in a thousand ways and means secure or manage to edge in those work posts which are comparatively leisurely and comfortable and thereby require the minimum input of manpower capital and, as a matter of fact, in any post the secret of minimizing input can always be easily found. Ways for the individual to utilize to his advantage the monopolized positions or posts are continuously worked out. Jobs which can convert the scarce resources they control themselves into the individual's conveniences (such as drivers and salesmen) are most sought by people and the phenomena of going "through back doors" and exchanging "conveniences" for "conveniences" are seen everywhere. The study of relationship has become the most universally accepted "public science." Here, we have again discovered a phenomenon of the same composition (in a feudal society the phenomenon of same composition once existed in the sovereign

power and the small peasantry): Distorted civilian power is distorted administrative power that is manifestation of the official power at the embryonic stage. Obviously, with a civilian power where such changed genes exist, any movement with the color of opposing official power, though frequently able to adopt an extremely violent form (such as the first stage of the "great cultural revolution" and other more "simple" democratic campaigns), has no way to eliminate official power itself.

3. Alienation of state's administrative power.

After our gaining an understanding of the composition of property right and civilian right under the socialist traditional pattern, it is relatively easy to understand why administrative power has become the important central point in the traditional socialist system of rights and privileges.

(1) Expansion and degeneration of administrative power

Under the socialist traditional pattern the extreme expansion of the state's administrative power is mainly caused by the ownership right existing only in name. In a functional power economy, the state has to employ administrative power to demarcate the individual's rights and privileges in all areas of economic activities and this is an objective necessity in maintaining society's normal order and operations. Seen from another angle, the state is society's formal representative. Because of its monopoly on the public jobs, it has the natural tendency of changing from being a social public servant to being a social master and after its further monopolizing the means of production and converting all the citizens to being its employees, this dual status it holds naturally greatly strengthens its power of control over society. Thus, under the traditional mode power centralization and providing the economy with all-round administrative functions (cadres of enterprises embraced in the economy are all incorporated into the administrative ranks, the enterprises are divided into different administrative levels and inside the enterprises large branch organs are set up corresponding to the various government functional organs) cannot be construed as what people have concluded to be so-called errors in policy or subjective inclination, but actually constitute the natural form or necessary conditions for the operations of the economy.

One principal consequence brought about by this extreme expansion of the state's administrative power is that this power, which is one of the original pillars of modern social power composition along with legislative and judicial power, can avoid being degenerated into the power form of the traditional society. That is, official power and the power of the sovereign.

The degeneration of administrative power into official power is first manifested in the administrative grades becoming prevalent and universal, in the emergence in all spheres of society of administrative official organs,

and in the general prevalence of the "official standard," of "officials being uppermost," and "listening only to officialdom." Secondly, due to mandatory planning replacing in an all-round manner market trade, officials at various levels have come to control the distribution of nearly all scarce materials. The monopolistic nature of their control and the citizens' universal attachment to the state enable the officials to convert their functional power into private power far more easily than in any other forms of economy. There is hardly any way of differentiating between the random use of power and being faithful to one's duties. (There is no absolute standard—to whom should a residence be allocated, or whom should be given good wages, or the opportunity to join training classes, or a better job.) It should be pointed out that concurrently, in the traditional mode of centralizing all the economic surpluses, the economy being under bondage to the all-inclusive and over-ossified regulations, official power likewise suffers from natural restrictions. hence, under this sort of structure, rather than saying that the principal manifestation of official power is that it makes possible the self-taking-over of benefits (aside from the legitimate interests prescribed by the grades or ranks) we should say that its principal manifestation is its possibility of influencing or manipulating other people's destiny. At the same time, under this sort of structure the dominant ideology is at least not a "lax" environment for the breeding and growth of official power.

If it is said that under the traditional structure there are still certain natural impediments to administrative power degenerating to official power, then the degeneration of administrative power to the power of the sovereign is different. First, the natural pluralistic property right (originally an important force in restricting and countering the state's power) having vanished, monopoly of the property right on the other hand increases an irresistible economic strength to the highly centralized power of the state. Second, civilian right is originally the basic power to restrict the power of the state but there has never been any systematic power to realize this right. Socialist countries have generally resorted to brutal revolution to seize political power. Its legitimate foundation has come about, under the conditions of the communist party members being absolutely inferior in both organization and equipment, through support from by far the greater majority of the citizens offering their blood and lives. Yet after the seizure of political power, socialist countries generally have not immediately set up a system of civilian right or power to restrict state power. Subsequently, following the state's monopoly of the property right and the formation and strengthening of the citizens' appendage relations to the state, it begins to become impossible to set up this restrictive system. In addition, as a result of the high degree of prestige attained by the leadership personnel in the prolonged war and struggle against opposing political parties, worship of individual persons developed rapidly. After the disappearance of any restrictive power on the power of the individual, the degeneration of administrative power

to the power of the sovereign is very difficult to avoid. The Soviet Union's "Anti-Rights Movement" in the 1930's and China's Cultural Revolution during the period 1960 to 1970, were extreme illustration of the utmost inflation of the sort of individual power. As for the ventures under this mode which have been seen frequently of building up one's spouse or children to become successors to power, these are the typical examples of this sort of power degeneration.

(2) The fragile nature of rule by administrative power and its regulatory mechanism.

After administrative power has expanded to each nook and corner of social life and become an omnipresent and omnipotent power, if it is always capable of selecting the most capable persons to the relevant posts then a functional economy or a social mode of this type can also reach a very high level of superiority. Unfortunately, in the promotional process of grades and ranks in the functional power mode no factors of any kind can safely guarantee this point. From the most crucial and most fragile link of society, the procedure of the generation of candidates for election, we can acquire a further understanding of this point.

Nomination of prospects or candidates for promotion in rank or grade not only is the pre-condition for election in form (election when the number of candidates is equivalent to the number of vacancies) but is also an indispensable link, even in cases of direct appointment without going through any form of election. In the grades and ranks below the highest level the mode of functional power can always use the upper level's wishes or decision to solve the problem of the suitability of the prospect. However, at the highest level, the functional power pattern meets with an unconquerable innate contradiction: On the one hand the structure's internal logic compulsorily demands that power and prestige be ultimately centralized in the body of one individual; on the other hand, in a modern society this sort of power centralization cannot be fixed or succeeded by natural (such as blood) relationships, thus causing an extremely unstable characteristic in this form of power centralization. Hence, in the mode of this sort of structure the power form always fluctuates in balancing the power of a sovereign, or the power of the equivalent to a sovereign, with a certain form of many heads or a single head. Seen from this angle it is by no means accidental that over many years the problem of the successor has become a matter of first-rate importance in China. It reflects that the operations of the mode of functional power pose special demands on the generation of leadership personnel and their individual quality.

The second contradiction in the self-circulation of administrative power is its difficulty to generate of itself a mechanism of the new replacing the old, and forsaking the old but absorbing the new. This causes the power

struggle inside the mode of functional power to assume a far more severe, cruel, and costly stance than the power struggle under the restrictive role of power and interests.

Finally, the functional power pattern which has shaken off the two basic power restrictions also poses a specially high demand on moral ideology and other ideologies to ensure the power's stable character and to lower the production cost of social management and coordination. As a result this produces the demand for control ideology and enforcement of unanimity in public opinion, and breeds the characteristic of secrecy in activities between the grades and ranks and at the upper levels. Hence, under this sort of pattern, the monopolistic supply of internal information becomes a kind of special treatment in the demarcation of grades and ranks.

However, by so doing a kind of vicious cycle results very rapidly: the more public opinion assumes a propagandistic character, the more leadership personnel have to depend on internal information. But production of internal information is of an even more monopolistic character, is even farther from being governed by common sense, and is frequently shaped to follow the taste of the leaders. As a result the systematic production of false information has become a byproduct which this mode cannot evade.

Nonetheless, it should be pointed out: The high-degree dependence of the functional power mode on ideology does not arise merely from the needs of the macroeconomic scale or politics but also has exceptionally deep going microeconomic causes. To a very large extent the effective operation of a functional power economy is established on the assumed basis of each and every individual possessing the spirit of being master of the house. If this spirit is prevalent in society then functional power economy can also attain a high rate of efficiency. Contrarily, due to the existence in society of administrative restrictions which come from top to bottom and are pressed from the outside, the economy can hardly avoid a low efficiency rate or even stagnation while various kinds of loopholes are difficult to prevent. Over the years and months the socialist traditional pattern has, regardless of the cost and labor, called meetings to learn and carry out various kinds of moral education. In reality this is not simply a sort of ideological inclination but also reveals the over-dependence on moral standards on the part of the functional power economy which lacks self-control and self-discipline. As a result this over-dependence becomes to a certain extent a "necessity" for the operations of the functional power economy. It goes without saying that due to the injected type of moral education being divorced from the motive power of man's basic conduct, the support from this system of moral standards embodies extremely severe potential dangers.

From this it can be seen that it is not at all accidental that what the Chinese people have called the method of "staging movements" has become an important regulatory tool to solve or ease conflicts employed internally in

the mode of functional power. This is because a movement can eliminate or prevent crises caused by persons awaiting appointment, can consolidate power centralization, can cut down people's anticipation of the quality of social, economic, and political life and thereby enable many people to generate this scarce resource of feeling satisfied.

IV. Socialism in Actual Practice, Part 2: Crisis Faced by Reform

After revealing the innate contradictions of the traditional socialist rights and interest system, let us again have an understanding of the socialist reform movement, and of the reasons why all the countries which take the market orientation road to reform fall into the dilemma of currently being in difficult straits. This will help us to more easily discover the causes.

1. Functional power economy which decentralizes the surpluses and efforts to rebuild property right

(1) Necessity to break up the surpluses and the basic means.

It is true that the operations of the socialist traditional pattern are considerably stable in character but its operation efficiency has the trend of being rapidly and progressively reduced. After this progressive reduction has reached a definite economic and political critical point, the functional power economy which centralizes the surpluses begins to proceed in the direction of decentralizing the surpluses. The major causes are as follows:

1) Drop in the benefits of the industrial economy. Up to now socialist reform has usually been successful in regressive countries. In these countries the foundation of industry is generally rather weak; the direction of the new investments is relatively clear-cut; and the state concentrates its efforts on building a large number of state-run enterprises and industrial bases and generally is able to obtain enormous dimensional effects. During the initial period of the founding of the nation, the revolutionary zeal of the masses to a large extent solves the problem of the insufficiency in motive power in state-run enterprises. Following the establishment of the industrial foundation structure, the risk characteristic of investments gradually increases and the blind characteristic of centralized policy-making becomes daily more obvious. At the same time the zeal and heroism of the citizens is gradually replaced by realism and the problem of low efficiency in state-run enterprises becomes prevalent. Regarding this, many developing countries which became independent after WW II have had more or less the same experience.

2) Drying up of surpluses in agricultural products. For a rather long period the unceasing transfer of agricultural surpluses has been the important source of the development of a country's industrialization. At the same time

the thriving rural economy is also an important factor in the domestic market development. However, following the unlimited withdrawal of agricultural surpluses, the decrease in land returns, and the increase in population pressure, this most important source of support for the national economy begins to become exhausted. The efficiency rate of agriculture under the system of collectivization falls drastically and the state is unable to bear the burden of large-scale capital investment in agriculture. As a result, agriculture becomes the most backward bottleneck impeding the development of the national economy.

3) Aside from the state concentrating its full strength on ensuring the smooth operation of individual ranking or top-notch industries (like certain war industry departments), the activities creating something new are increasingly tend to stagnation. Imports from western countries of new technologies and new products has become necessary and is compulsorily needed in daily economic competition. The initial attempts to convert a closed-door policy to one of opening to the outside world is frequently accompanied by many foolish episodes and frightening waste and extravagance (like the "foreign leap forward" during the last stages of the 1970's). The pressure force from changing the structure and a disintegrated policy has obviously increased.

Thus, functional power economy will sooner or later enter the stage of reform.

Reform usually starts from delegating power and ceding interests.¹¹ This saying of delegating power and ceding interests very precisely links together these two things with intrinsic qualities, namely power and interest. Despite that, theorists look at reform frequently from the standpoint of to whom power belongs, yet from analysis of the economic procedure power which carries no interests has no significance at all and it is nearly impossible to "delegate." Hence, so far as the economic nature of delegating power and ceding interest is concerned, it is the process of conversion from centralizing to decentralizing surpluses. Seen from the development of China's reform, dispersing of the surplus is being carried out in four different forms:

1) System of separate enjoyment of orders. This refers to a form of improvement on the basis of the mandatory planning system. That is, reducing the scope of mandatory planning and centralizing on such major targets as profits, salaries, wages and bonuses, and enforcing methods of the enterprises contracting from the state like profit retention, progressively increasing the responsibilities for tasks until their completion, "leasing" and contracting, and the measure of "ensuring and linking" (ensuring profit delivery and linking gross volume of salaries and wages with the profits and taxes for upward delivery), the special feature being one rate for each

household. this does not segregate itself from the "base figure" problem while the enterprise's anticipations follow the length of the contracting period and change accordingly.

2) System of separate enjoyment of regulations. This form attempts removal of management of mandatory financial target planning (but retaining control of the gross volume of salaries and wages) and uses such measures "taxes in lieu of profits" to enforce the enterprises being solely responsible for their own profits and losses under the state's unified regulations. That is, the so-called "paying taxes according to law and operating autonomously." Along this line of thought there are other experimentations such as various kinds of "special household enterprises," "enterprises without upper levels," and so forth. The essence is to attempt to abolish mandatory orders, grades, and ranks in the functional power economy and to depend only on the regulations in management and to convert functional power economy into market economy under the guidance of regulations.

3) System of reorganizing by increasing volume. This form on the basis of not affecting the existing volume of the enterprise's assets, calls for carrying out a renewed organizing of the portion of the increased volume of the enterprise's assets. It is being carried out in enterprises trying out the stock-holding system. The method is to count the newly increased profit retention as enterprise shares and to begin to absorb a portion of the staff members and even individuals in society as shareholders. In this pattern the confusing existing volume (originally whole people's assets) and the unclear increased volume (the status belonging of the enterprises shares being still not settled the current fixtures are separately entered in the books and belong to the nature of state-owned assets) from with the clear-cut new volume (portion of input by individuals) a new and unique structure.

4) System of semi-leasing. This is a contracting form of a straight fixture of delivery to the upper level and "the remainder being self-retained." The individual leasing of certain small shops is the most conspicuous type. In our country's rural areas the system of large contracting for completion of tasks belongs to the nature of leasing and hence the anticipated effects are specially clear. The existing defects are that the form of leasing and amount involved are not at all clear. At the same time, the contracting period determined by the state or local government is in conflict with the land in name belonging to the status of collective ownership, and in reality with the practice of the collective (originally the production team) assigning the production responsibilities to the household. As a result the stable character of the peasants' anticipations is affected.

(2) Economic confusion following splitting up of the surpluses.

A functional economy is a sort of closed-door economy of a compulsory character. The conversion from centralizing to decentralizing the surpluses marks the dissolution and dismantling of the system's foundation. When people utter cries of power-delegating and interest-ceding work not being sufficient and needing to be pushed further, the functional power economy is in reality nearing the end of its rope, so to speak. And when the gate of the market-oriented reform is wide open, the confusion in the functional power economy can no longer be halted. The confusion comes mainly from the following:

1) Disruption of original order. A functional power economy is controlled by demarcating departments and localities administratively. Here, the entire structure is strictly closed up. All economic acts take grades and ranks and regulations as the basis, are carried out according to mandatory orders, and are closely guarded. Carrying out adjustment and transfer of products, demarcating and controlling prices and even personnel are all subjected to division of status or "ji's" of different tracks. Being responsible to the upper level and the gulf-like separation from neighbors are the golden rules of the economy. Therefore, there are no spaces for exchange in this economy in which things of really equal value do not exist. Decentralizing the economic surpluses and allowing people to seek their own interests (including exchange), naturally form the all-round breaking of the regulations and cause disruption of the original orderliness.

2) Drawbacks in the new regulations. If it is said that while the old regulation of centralizing the surplus is irrational it still may be contained, then in the functional power economy the new regulation of decentralizing the surpluses is irrational and makes people hard to bear.

First, the object of the decentralizing the surplus is subject to dispute. For example, decentralizing according to departments and having distribution by the finance department of more of the resources shifted to distribution by the banks, seems to conform with the market-oriented reform. Yet, in the functional power economy are not the banks also separate administrative departments? When they expand the "base figure" they occupy and seek a larger share of the resources, they obligingly offer funds to clients; and when the administration orders a tightening of the market they are obliged to deduct funds by compulsion from the accounts of enterprises which are still capable of running smoothly (frequently enterprises of the advanced or progressive type) and also decline withdrawal by depositors of their cash deposits, regardless of and without regard to the life or death of the economy. If delegating power and ceding interests are carried out according to localities, that is the administrative levels, the local governments themselves are only repeating in a smaller scope the same functions of the central government. This also encourages the tendency to fight for investment and setting up more

projects, redundant introduction, and redundant construction. If power and interests are directly delegated to the enterprise then, since the existing enterprises frequently are only some geographically separated plants or workshops and in structure are only one grade of administrative unit (devoid of their subordinate status to departments or localities, they are unable to survive in this society), to delegate power and interests to these "enterprises" which in reality are not enterprises, will mean paying a high price in the distribution of resources. Besides, this obviously has not departed from the set pattern of the so-called power-delegating of an administrative nature.¹² In reality, the meaning of power delegating of an economic nature can only be by dividing property, that is, breaking up property right). If power and interests are delegated to their higher level bureau or "corporation" in charge, then we have only founded a new and frequently poorer administrative organ. Obviously, when the economy is full of administrative units of sundry sorts the chances of rationally delegating power and ceding interests are very meagre.

Second, the standard for decentralizing the surpluses is in a chaotic state. Under the conditions of the lack of property right, the decentralizing of surpluses, be it in the nature of mandatory orders or regulations, openly or secretly recognizes the base figure or present status. This is equivalent to declaring that the state of holding and using the resources formed up to now and basically not connected with the enterprise's efforts is a kind of natural privilege. If it is said that formerly the scramble for resources was for the purpose of making it convenient (or performing the duty) to fulfill the state plan. Now, when expansion of the holding and use of the resources can bring benefits to oneself, particularly in conversion into individual income, the motive force for the scramble for resources is entirely different from before. Due to this sort of distribution of holding and use being in conflict with any principle of justice or equality already in existence and conceivable, (neither in accordance with an individual's "labor" nor according to whole people's "capital"), this is the fundamental cause for the generation of inequality in joy and sorrow and scrambling and struggling among people. On the other hand any attempt to weaken this inequality (such as revising the base figure or the tax law) will naturally stimulate instability of anticipations and make short-term acts inevitable. This causes people to believe that the method of seizing at the first opportunity and attaining benefits the earlier the better is the only correct countermeasure. The so-called cycling of policies and countermeasures only reflects that the decentralizing of surpluses in the functional power economy and seeking an equitable distribution that does not exist will cause a drastic increase in the exchange expenses. That is, expenses incurred in the frictions of the system to a certain extent offset the benefits brought about by the decentralizing.

3) The unclear state of subordination or belonging of economic surpluses. Regarding the economic surpluses decentralized in delegating power and ceding rights,

outside the portion which can be clearly taken as individual income, their status of belonging is confused and nuclear. Because the enterprise is not the main body of interests and is only the embodiment of different interests, the confusing standard and unclear status of belonging render the surpluses that are extricated from the state's direct control and dispersed outward the targets of scrambling by the whole society. The current currency inflation is only the nature result of the scrambling by society as a whole.

Basically speaking the confusion in surplus decentralizing in the functional power economy is due to functional power having no way to demarcate the distribution of surpluses. In a functional power economy the occupation of position and the corresponding occupation of resources possess a rather large circulating characteristic and the relationship between functional benefits and individual benefits is even more unstable and unregulated. This turns the liaison between the individual's input and benefits in the surplus distribution into a chain that is too long and, naturally, often out of joint and disconnected. As a result the general shortening or reduction in people's anticipations of benefits and the disconnection between the head and the tail are manifested in people's overly large investments (spending the utmost in order to seize the surpluses) during the holding (seizure) period, and insufficient investments outside that period. That is, on long-term projects. At the same time, due to the individual and society's production costs being generally in contrast to one another, in order to increase the individual's benefits people will not hesitate to double society's production cost (the typical examples are spending public funds to buy limousines for self-enjoyment, feasting, and so forth. In such cases the individual's benefits are clearly lower than society expends). In short, when investment risks and distribution of surpluses do not correspond to each other, abnormal changes in investments, low quality, and scrambles in the distribution are the inevitable phenomena of antithesis. From this we can derive the third law in functional power economics: In a functional power economy the improvement in utilization and allocation efficiency of resources brought about by the distribution of surpluses have the tendency of progressively decreasing in time, while the difficulties in surplus distribution tend to steadily increase the spendings incurred through the frictions of the system. The corresponding movements of the two cause society's net surpluses to result in zero value. Currency inflation is only the external redistribution form of realizing this balancing tendency.

(3) Confusing region in re-establishing property right.

The crux in the decentralizing of surpluses in the functional power economy is that delegating power and ceding interests open up the pandora's box inside this economy and disrupt the stable character of the original system. Prior to the general establishment of the new property rights a new orderly structure is lacking. The above mentioned confusion in the scramble for the

economic surpluses cannot be eased through the discovery of any just regulations internally in the functional power economy. In reality, even in a market economy the rational evaluation or attainment of the essential production factors merely exists as a long-term trend or in average figures and not in each and every individual circumstance. Hence, the basic function of property rights lies not only in that through demarcating and protecting the rights of property it is able to protect and rationally evaluate scarce resources but also, by means of this demarcation, eliminating the disputable character of being rational or not in each and every circumstance (possibly a huge profit or a heavy loss) in the property benefit-earning process. This refusal to talk reason, or even irrationality, on the surface nevertheless stabilizes people's anticipations and greatly effects economy in the production cost of society's transactions. This precisely marks the commendable point of using property to demarcate rights and privileges. On the other hand the fact that the decentralizing of surpluses in the functional power economy leads to abnormally high transaction expenses and utter confusion in the anticipations is precisely the cause for much confusion in the reform process.

This being the case, why is it that although as early as 1985 the question of property rights was already raised in China's reform and in recent years piloting points of the stock-holding system have spread like wild fire in the country, confusion in the anticipations has still not been solved? On the contrary, new gaps have caused the surpluses to be eaten up like silk-works and severe scrambling for them. It should be said that this is related to a series of wrong interpretations of the essential nature of property rights.

1) What after all is the basis for the rights and interests of properties? Essentially all rights and interests consist of a sort of individual rights and interests. Only when property right takes the individual's rights and interests as the basis can it assume the role of real social rights and interests and the general formation of restrictions. Many economists studying the property right problem have refuted the necessary nature and role of the foundation of the individual's rights and interests. This is the important cause for their enthusiasm in propagating the "legal person's property right," and the "enterprise's property right." However, because of this deviation from the foundation of the individual's property right, the legal person's property right cannot but become a castle in the air.

A considerable number of economists are aware of the nucleus role of the individual's property right, but because they have not differentiated the individual's property right from the form of the private person's occupying the means of production. On the contrary they have taken the individual's property right as synonymous with private ownership and, as a result of ideological considerations, have forsaken and put aside the

individual's property rights to find another way out. This may be said to be a kind of tragedy in scientific research work.

Naturally, there are people who have gone to the other extreme and directly advocated the private ownership system. They have more or less taken privately-run enterprises as the direction for economic development. As a matter of fact, enterprises owned and run by private persons have been proven to be an outdated production form which cannot become the main current and direction of our economy. Besides, it should be seen that in the enormous climate of socialist countries the acts of privately-operated enterprises, when compared with the same kind of enterprises under the Western market economy, are very different and even rather distorted. It is not realistic to entertain any great hope for the development of privately-operated enterprises and their contributions to the national economy.

2) What is the economic nature of civilian-operated enterprises? Conversion from state-operated and state-managed to civilian-operated and civilian-managed is an enormous blow to the integrated and closed system of administrative grades and ranks of the functional power economy. It should constitute one direction of enterprise reform. However, it should be noted that civilian-operated is in contrast with state-operated: it has not solved the problem of civilian ownership. The fact that the adoption of measures of socialized tender-inviting and tender-making in the assets management responsibility system and certain other reform measures for the sake of solving the problem of converting state-operated enterprises into civilian-operated has met with rather severe setbacks, shows that under the prerequisite of state-ownership, civilian operation has many difficulties and a highly unstable character. Even in many of the civilian-operated enterprises which have completely cut off their administrative subordinate relationship, after they have fully repaid the loans incurred for starting business, problems of unclear property right relationships still exist with the result that founders of these civilian-operated enterprises have been forced to resort to the forms of monopolizing their positions and controlling the management power in order to protect their interests. That these individuals have no legitimate property right or interest cannot but influence the acts and anticipations of the enterprise and the decisionmakers as well as lower the efficiency rate that these enterprise organizations should possess. That in the existing civilian-operated enterprises the property right relations are still unclear proves from another angle, that inside the system of ownership by the whole people separation of government from enterprise functions has absolutely no prospects.

3) What is the so-called "system of ownership by the legal person or enterprise"? The legal person system is a new creation of the form of ownership right; its peculiar

effects are that concurrently with its retaining the individual ownership right, it makes the property organization form highly socialized. But in itself it is a sort of intermediary and not the end or ultimate ownership right. Diverted from the end owners who start and organize the legal persons and actually bear the property risks of them legal persons cannot be generated nor can they truly survive. The system of ownership by the enterprise can be established only in the sense of a system of collective ownership.¹³ By so doing, the foundation of the stock and share system will be damaged. Nevertheless, in such a case, the enterprise's staff members and workers should have the full power of ownership and power of disposal and can, according to their wishes, dispose of (including presenting to others and dividing) this property. If in name the assets belong to the enterprise but the state actually holds the real disposal right or if their nature must still be determined by the theorists, then in an economy in which such universal infringement of rights are treated as child's play, it will not be possible to truly and definitely set up any kind of right and interest relations.

The fact that the "legal person fantasy" of the system of ownership by the legal person and the enterprise has formed especially powerful effects in China, and has to a definite extent become the main impediment to truly rebuilding the property right, has many deep-going causes. First, due to the development of the reform following the road of delegating power and ceding interests and separation of government from enterprise functions, simultaneously with weakening the state's interference in the enterprise, the state's function as the enterprise's ultimate or external owner is also weakened. This measure of consciously or unconsciously cutting off the enterprise's external owner inevitably breeds the natural tendency of the enterprise regressing to internal ownership including the system of ownership by the enterprise. Second, in the functional power economy of decentralizing the surpluses, reform frequently takes the enterprise as the center or principal, able to select various kinds of reform to increase its vitality. But in the changes and reform of the property right system, the situation is entirely different. Selection of the organization form of properties can be only the solely-enjoyed privilege of the property owner. In contrast to the division of land by the peasants of their own collective land, cadres and staff members and workers of state-owned enterprises are not the owners of the enterprise's property. Hence, an enterprise which is not in the hands of the owner organizing the stock-holding system covering other people's property will naturally breed many absurdities. For example, let us cite cases such as people linking their benefits with the benefits of the resources or assets which they are currently occupying and using. This is the biggest injustice after the decentralizing of surpluses in the functional power economy. Moreover, the practice of the so-called after tax retention being turned into enterprise shares, all the more augments this injustice and its introduction into the new property system will render the property right devoid from the

beginning of the basis of public recognition. For another example, the legal person's assets have an integrated character but, with the original property relations being unclear, adding in property right which is clear-cut and clear (such as the individual's shares), the result is: confusion plus clarity equal confusion. Reorganizing through increasing the volume cannot cut the umbilical cord of the practice of everybody eating from the same big pot now can it open wide the door for gradually eating up the surpluses. Finally, and most fundamentally, because the ideas of individual right and individual selection have not been generally planted in China, people (including many theorists) do not consider the form of legal person or the collective or other public ownership right as the result of the individual in society being suited to economic development conditions, going after advantages, side-stepping disadvantages and making their own choice, but look at them as a priori that must go through the form of compulsion from the above or the outside. In learning from the modern property right (such as the stock and share system) and taking it for our own use, forsaking this essence of the formation of the property right will unavoidably give birth to irregular forms.

Naturally, after the refutation of the enterprise share the existing line of thought of the stock and share system can hardly be maintained (except the occasional sprinkling of individual shares but leaving the state shares as solely holding the absolute monopoly). This is also the reason why certain economists firmly insist on keeping the enterprise share. In reality, the difficulty here shows precisely that between the existing state-owned enterprises and the share and stock set-up a basic stone bridge is missing.

2. Civilian power's imbalanced evolution.

Among the historical changes in China's 10 years' reform, aside from the improvement in the people's standard of living, the most outstanding is probably the liberation of civilian power. Regrettably, due to the original abnormal structure of the power and interest system, the civilian power's road of liberation has not been exactly to people's wishes.

(1) Weakness of the subordinate relations and distorted direction of the manpower capital.

The weakness in the subordinate relations of the citizens does not usually attract people's attention but is an important matter which is steadfastly developing and changing the historical destiny of the Chinese people. The first breakthrough in rural reform endowed the peasants occupying the lowest status in China's society, with properties which they can freely and by themselves make use of to earn a living. The peasants' freedom of undertaking and establishing various kinds of industries on this basis and their courage of going a thousand li's afar to seek employment and to create and build new

towns and townships have only attracted the keen attention of the urban populace but also obtained to a certain extent, their admiration. Closely following this, the encouragement given to individual-operated enterprises, the growth of privately-run undertakings, emergence of special zones and regions opening to the outside world, starting of jointly-financed enterprises, as well as the development of civilian-operated enterprises, have all shaken the state's monopoly on employment and the means of making a living. People's field of choice and the spaces for their self-realization have been incomparably expanded.

However, the liberation of citizens has developed along a very peculiar road: The peasants who are of the lowest "ji" or population status were the first to obtain property rights, while in the sectors of small-scale businesses and sundry business undertakings the state was the first to remove the ban. By so doing, small merchants, owners of small businesses, and a small number of peasants naturally became the main bodies to become rich before others. In spite of the apparent equality, the "any discontented person can go into individual enterprise," only peasants of the relatively lowest cultural level, a portion of workers, city people awaiting employment, and even former convicts (according to statistics they made up 20 percent of the individually-operated units) came flocking to these areas where the cost of production was the lowest. As for the great majority of people relatively high in the quality of manpower capital, because the state still has a monopoly of the scientific, educational, cultural and defense sectors, because social bodies and large-scale enterprises (not to mention government organs) which were special areas suited to the input of their manpower capital, and because orienting toward the sectors of small peddlers and sundry jobs recently removed from the state's ban would imply too high a production cost in opportunity, they could only very reluctantly and remorsefully remain in the areas monopolized by the state. Only a small number of people finally changed to new undertakings. Thus, it is not difficult to understand that whenever a new special economic zone has been established hordes of people of high intellect have been attracted by it. The practice of opening up the market of manpower capital of low quality and continuing the monopoly of the market of manpower capital of high quality inevitably causes a too high market evaluation of manpower capital of low quality. Thus, the evaluation system of the manpower capital of society as a whole will become distorted and imbalanced. The new theory, so-called "studying is useless," is only a reflection of the current inequality of opportunities that lead to wrongly guiding the direction of manpower capital.¹⁴ It can be seen that except in the economic analysis of unequal opportunities, merely educating people on increasing the "psychological power to bear" against income disparities is unrealistic.

(2) Special privileges of status and monopoly of positions in monetary terms.

Precisely because of such "ji" or status due to the system of ownership by the whole people being still under the sole control of the state, despite the fact that actual appendage relations have been greatly weakened, the special privileges of man's status and position have not vanished but have become more serious and important for the following two reasons: 1) Because being imbued with and controlled by traditional ideologies has lost its effect, and under the conditions of the functional power economy there is no way to form the restrictions based on property rights and the professional ethics in market competition, the existence of such a "vacuum" has caused the moral control over the people to be greatly slackened. 2) With the development of the situation of the economy becoming commercialized and the concepts becoming worldly or common customs, use of the power of a post or position in exchange for good things for the individual is no longer confined only to acquaintances or to a primitive form of barter or exchange of goods in kind. It can be carried out on a large scale through the tool of monetarized credit. Many people have gradually discovered that not only can large earnings or profits be attained from departments obviously and directly related to the monetarized economy, such as commerce, taxation, industrial and commercial management, and banking. Many industries and trades which can produce earnings or profits which people have never thought of before can also be "voluntarily" offered by clients or those making requests, when direct or indirect tactics are applied. Post and position discrepancies formed by the natural division of work differ not only in the occupation and use of public resources but also in the possibilities of the conversion of functional power into the individual's income. Obviously, this is another economic cause of the so-called inequality of opportunities.

An important factor for the regular surfacing of these kind of special privileges of status and monopoly of positions of citizens is the non-symmetrical character of the rights and privileges of the status of the citizens. That is, since the reform, staff members and workers have begun to select units whereas the units cannot select or discharge the staff members and workers. Even in the case of bankruptcy, what the enterprise bankrupts is the state's property, while the workers can still, based on their "status," have their work rearranged (frequently they are given better jobs). This sort of condition reflects that the problem of the special privileges of the status of the staff members and workers is not that it can be solved, as people usually believe, by the formation of a welfare protection system; but lies in that recognition is needed of possession by the staff members and workers of certain rights and interests in the publicly-owned properties, and that these rights and interests should be clearly separated from the whole-people status of the staff members and workers. It should be seen that devoid of this corresponding readjustment of the citizen's rights and interest, reform of the property right cannot achieve any success on its own.

(3) Change in the form of collective selection and democratic right.

Since the reform there has been a large increase in the rights of citizens taking part in collective selections in the same unit. At present they can not only exert exceptionally strong pressure on the leadership in respect of such matters as bonuses, fringe benefits, and even opportunities and treatment of equality but also, through the means of "public opinion," exercise considerable influence on the unit's important policy decisions and even changes of the leadership personnel. Introduction of the systems of inviting and submitting tenders and election without a quorum enable the citizens to have their rights increased in participating in public elections. Nevertheless, the drawbacks in the composition of the rights and interests structure are similarly staunchly manifested here.

First, absence of property right causes an inclination toward welfare ideology in collective selections. As we know, pluralistic property right is the basic prerequisite in the market distribution of resources. But in the functional power economy distribution of resources is determined by the historical holding or occupying level, and by the vertical bargaining ability of the unit's leadership personnel. Deprived of the property right and its market functions no, or very little, pressure is felt between the units and collectives from competition in the market or society. Under such conditions the need for stable anticipations and long-term investments before the formation of the unit's invisible capital (like well-known brand, credit reputation, commercial reputation, degree of social recognition, and academic or technological status) is frequently of little importance, or at least must follow people's current wishes. Leadership personnel seldom exert efforts or pressure on sifting or selecting capable subordinates, while staff members and workers are inclined to like those leaders who can give them more welfare benefits (in fighting for more resources, distributing more niceties, understanding and not minding subordinates making less input or effort, not interfering in the subordinates making use of their position in exchange for benefits). Collective selection under such a specially fixed composition will inevitably manifest a strong inclination to welfare-ism. This combination of public opinion and a leadership system of balancing powers can hardly send people to leadership posts. The result is the emergence of a peculiar phenomenon: The initial appearance and rise in the citizens' right of participating in collective selections seems to signal the general fall in the basic-level prestige which forms the foundation of society.

The nondevelopment of autonomous rights and privileges causes democracy to have a tendency toward being like roving bandits. This is because under the conditions of the lack of pluralistic property right and the monopoly of resources by the administrative centers, new autonomous bodies cannot be formed. Due to the grades and ranks being of a closed nature, economically civilian-operated organs still have to rely on "linking and depending" for survival. Thus, simultaneously with the development of an alarming number of various kinds of

"service companies" and "development centers" which are government-operated units and can supply funds, freely constituted societies of a non-economic nature not only find it difficult to raise funds (aside from those having official recognition and thereby supported by state finance) but also face rather great political risks. On the other hand all the officially-operated organs still belong to the world of grades and ranks and their resources (including the leadership personnel) basically still have to be fixed and distributed by the upper level. Thus, the citizens' democratic rights, interests, and ideas are developed in a very abnormal direction. Seen from the individual angle, they frequently convert their legitimate autonomous rights, which cannot be obtained, into semi-legitimate rights which only call for the minimum labor input; they openly engage in practice like: "Dilly-dallying in their work"; "loudly seeking welfare benefits"; "contending for better treatment"; and never consider the unit as their own organization but use it as an object for gaining benefits and expressing their grievances. Seen as a whole, people frequently do not understand that, in essence, democracy is an organized system based on the citizens' autonomy. They believe that there is no need for the objective process whereby the autonomous bodies gradually replace the appendage stages of the administrative grades and ranks and that democracy can be formed at one stroke throughout society merely by "contending."

3. State administrative power: The threat of inflation of official power and growth of power of the localities.

The vast current of the reform and opening to the outside world marks the end of the era of the heroism of millions of people "unlimitedly worshipping" and "endlessly respecting." The structure of a high degree of centralism became the center of attack. However, very few people anticipated that the functional power economy which lacks restrictions from property right and civilian power, after distributing the surpluses and making economic land rent universal, would become fertile soil for official power to prosper in. Disintegration of the power center and with official power running amok caused many concealed structural defects to begin to surface.

(1) Inflation of official organs, expenses, and personnel.

Since the reform began, the inflation of official organs has been astonishing. Each and every reform of the structure became the golden period for increasing the structural composition and promotion to a higher level of the organs. The peasants grumbled that a county alone had to concurrently keep and support five sets of "government teams" (party committee, government, people's congress, political consultative committee, and disciplinary commission). In the books alone, administrative enterprise expenses sharply increase at a rate of over 20 percent a year. The administrative grades and ranks system did not follow the reform by being cut in size. On

the contrary, following the establishment of new structures and need for new units was extended to a much wider territory. The number of cadres of various grades increased at a rate much faster than the growth of the GNP.

The increase in the course of the reform of the number of official organs and personnel, and thereby of the amount of official expenditure, aside from the usual economic causes (that is, under the conditions that distribution of benefits was centralized, the bearing of the burden of expenses was dispersed, and continuous increases in the gross volume of socio-economic surpluses, it is extremely difficult to prevent the government from constantly increasing the share of the national income it takes), the principal cause is the division and decentralizing of the surpluses. That is, delegating power and ceding interests. The functional power enemy which disperses or decentralizes the surpluses on the one hand calls for maintaining nearly all government functions of the traditional planned economy; and on the other hand it needs to establish a brand new system with a more or less decentralized policy to control, regulate, and supervise distribution of the surpluses at the same time it pays the trifold cost of maintaining the operations of the planned and market economies and coordinates the friction between the two. In addition, under the conditions of the property right demarcation, many intermediate organs possessing external economic benefits, like industry and trade federations, consumers' federations, and various units undertaking advisory, training, and servicing work, though originally spontaneously established and managed by civilians, now cannot but become extensions of government organs and maximize the cost of production. Finally, decentralizing the surpluses usually begins in the production areas. It breaks the original balance between the administrative and production posts in the functional power economy in centralizing the surpluses. In order to compensate the officials for their corresponding losses this quite naturally steps up the pressure for officials' rapid promotion and cannot avoid the "movement to create more officials."

(2) Semi-state functions of local governments and their conflict with central government functions.

The decentralizing of surpluses naturally goes in parallel with the conversion of control by central government departments to management mainly by localities. As a result, since delegating power and ceding interests, the contradictions and conflicts arising between different localities and between localities and central government have attracted people's attention. Criticisms against the localities have also been mounting daily. Underneath the localities' "scrambling for production growth rate" and "blockading and earmarking spheres of influence" are conflicts in the functional power economy of decentralized surplus between the semi-state economic functions of the localities and the functions of a unified state and central government.

As we all know, in a modern government (regardless of the degree of intervention in the economy) the two basic economic functions are control and management of employment and money. The prerequisites for the state's ability to perform these two functions are naturally that a modern national government is a fixed common body of constituents and that the state has a monopoly of banknote issuing. Lacking either of these prerequisites, performance of the state's macroeconomic functions is out of the question.

A special situation that has emerged since the reform in our country is that after the central government's delegating power and ceding interest, due to the census registration system still being in effect and the disintegration of the rights and interests of the individual what is under the management of the local governments at various levels is still the cooperative district, which has a fixed constituency and is separated from the cities and villages. Decentralizing the benefits and interests forces them, under the conditions of protecting and increasing the economic welfare of the localities and particularly those of the urban residents, to seek the maximizing of financial receipts. In the markets for products of a strong regional character, the local government usually restrains the prices of agricultural products from the locality, and ensures the stability of purchasing power to reduce, or stop increasing, subsidies to the urban residents. At the same time, this ensures low production costs in local industries and increases foreign exchange earnings the locality's exports. These semi-state functions, in the circumstances of where are no national boundaries and the same currency is used, lead to various kinds of unceasing "big battles" with neighboring regions suffering from disparities in the prices of the agricultural product resources. In the non-agricultural industries with a strong characteristic of mutual association, the local governments continue to scramble for central government expansion of their share of resources distribution and on the other hand principally begin to seize the power to issue banknotes from the central government. Local governments, working hand in hand with the local branches of the banks (administrative subordination forces the latter to accept control by the local government), or employing the methods of giving priority to meeting the needs of the local projects and reserving the more difficult projects for the central government to deal with (such as projects whose industrial circulating funds and agricultural products purchasing funds have a bearing on the stability and development of the entire national economy), will force the central government to come to terms, sooner or later, by loosening the money market. Or, they may use a variety of other methods like raising funds to establish financial trust and insurance companies and encouraging the enterprises to issue stocks, shares, and bonds to raise money and expand investment to speed up the circulation of money and, in reality seek, a larger share in issuing banknotes. The stepped-up effects of these measures are that once the scrambling is in progress the falling behind in credit expansion of any one locality

implies a reduction in its share of the country's resources distribution and its becoming a victim of currency inflation.

The attainment of the semi-state economic functions by the local governments indicates a divergence of the local government's functions under specially fixed conditions. Basically speaking these divergences are generated by the lack of a replacement for property right and of control by civilian right. In a functional power economy which decentralizes the surpluses administrative power cannot but become the center of resources distribution. The government is not only the party which sanctions all large-size investment projects but also the real organizer and the bearer of risks. The point of difference is that in a functional power economy which centralizes the surpluses, while the central government does have a strong urge to expand investments and seek a rapid growth rate in the economy, because at the same time it cannot evade the burden of stabilizing the economy and currency value, in front of the steel-like statutes of the economy written in blood (like the "great leap forward"), it cannot but exert a stated degree of self restraint. On the other hand, in a decentralizing the surpluses structure local governments have the same motive force of expanding investments and also suffer from external and internal pressures of competing in expansion. But they are immune from any responsibility to exert self-restraint (because stabilizing the currency is the business of the central government). The natural product of the current structure is that localities use all possible means to stir up currency inflation. On the other hand, that local government can in a sovereign state blockade and close up the markets, outstandingly denotes the non-autonomous character of local administration. Different from a sovereign state blockading and closing the markets for agricultural products for the sake of protecting the peasants' interests in that country, blockading and closing the markets in localities which are under a unified currency are precisely preconditioned on damaging the interests of the peasants who form the great majority of the population in the locality. It is basically unthinkable, obviously, that such a state of affairs can exist under the conditions of restriction by civilian power. From this it can be seen that in a decentralized economy (not to say a market economy) which lacks property right and civilian power, numerous loopholes will appear and the measures cannot achieve the desired effects.¹⁵

(3) Expansion of official power.

It is very difficult for a functional power economy which decentralizes surpluses not to become one in which corruption and evil practices are prevalent. This is because it offers a strong attraction and lacks corresponding restriction by power and interests. The drastic changes in economic and social life cause administrative officials to universally engender a strong desire to take and to exploit. Their usually relatively high income has become a mere pittance. The publicizing of materials devalues the information they originally monopolized

and weakening of the appendage relations invisibly lowers their usually respected social status. Enforcement of the system fixing a stated term of office¹⁶ Particularly when so many common citizens understand how to use the power of posts and stations to exchange gains for themselves and to benefit from the surpluses. For officials to display the potential of their power to achieve the same ends is different only in degree.

Simultaneous with the functional power economy which decentralizes the surpluses making administrative officials feel that they have become victims of exploitation, it also provides for them very advantageous conditions to seek economic compensation. Under the conditions of the lack of property right and the distortions of civilian power the only basis of the legitimate nature of the individual attaining the surpluses is the recognition by administrative power. This bestows on administrative officials a kind of special power. Certain administrative officials can use legitimate means to enable themselves to get more and can also use less legitimate forms of exchanging with other people. So far as certain people are concerned their individual, and even their families, consumption have entered into the free realm of public expenses. Despite the fact that the department they are responsible for is extremely tight in the public ownership economy (such as the poverty areas which yearly have been "asking for rice," and the educational departments which open their mouths wide seeking food), this will in no way affect their appetite for consumption. Their ways of lavish spending and air of extreme extravagance the show made by western "big shots" one step lower.¹⁷ As for how rotten officials and official-merchants turn their power into means for future consumption, we know something from what the rotten elements have said that with a few thousand yuan in hand one can break through all the tax outposts of the country. For the sake of private interests many officials and government offices have silently permitted the production and marketing of false and poor products, products with imitation trademarks, even phony wines, false farm medicines, false fertilizers, and so forth, which abound in the markets. This damages the state and endangers the people and staunchly defies repeated banning. With official power degenerating to such a state no wonder people have lamented the state of the economy, grumbled at the political situation, and expressed sorrow at the culture. They have even become infected with the sentiments of the "end of the world."

Part 3: Prospects

After over 10 years of hurried development, China's reform is now in a crucial, historical turning point.

Summarizing the situation, it may be said that at this historical crossroads, China's reform faces three possible prospects.

The first is the prospect of stagnation. Decentralizing surpluses has lead to the "breakdown of rites" and countless confusion and makes one feel that "retracting"

or "retrieving" to regain order is not only easy and simple but also the correct cure. Each and every "gold medal," such as monopolizing operations, banning markets, controlling prices, centralizing surpluses, and taking back power, can stop or eliminate a portion of the confusion. But it must be seen that centralizing will demand greater centralizing, and retrieving power will demand retrieving more power. Thus, the functional power economy of decentralizing of the surpluses will begin to return to the fold of the functional power economy, which centralizes the surpluses. Only history will not repeat itself in the original pattern. The confusion in delegating power and the friction in retrieving power, the fear that unifying will become strangling, and the pain of delegating leading to frequent confusion have formed a cycle of reverberations.

Naturally, any return to the functional power economy of centralized surpluses would not be the end of the reform. Reform is a world current that permits no barrier, especially when it embraces so many rich intentions. Even though reform has stagnated to a certain degree, we can say that the time for China's economy to soar is not yet ripe. Besides, we can ask ourselves: Isn't a foundation of only 10 years a little weak as well?

The second is the prospect of disturbances. After all, the Chinese people have waited too long. Nobody should ignore the fact that the 10 years of reform have formed a noisy and mixed strength that propels itself in various directions. Astute economists have not missed the opportunity to teach the lesson that the current confusion is the result of errors in the past and that after several more years of tightening and retrenchment, we can once again attack the problem of prices and that brightness lies ahead. Adventurers will claim that the political problem is the crux of China's reform and that democracy can only be attained on street corners. The high-ranking elite of the noble class, seated high and looking downward, will proclaim: "Let the teeming masses wait; our technical bureaucrats will soon put forth the blueprint!" Sagacious people will ponder over the transmigration of the Chinese race over the past one thousand years and more and over going back and forth from prosperity to decline. It is all a matter of culture, perhaps! People who hold themselves aloof will still be waiting, while the worldly will continue to plunder. Perhaps having no ending is an end by itself, and perhaps the chain will break somewhere when confusion regions and heroes of disorderly times will emerge from all sides... Yet, could this be what the Chinese people have always been looking for throughout their difficult explorations?

The third is the prospect of flying high. For many years these various prospects have appeared and waned before the eyes of the Chinese people. Only, because of our ignorance or stubbornness, we have missed them time and again. The 10 years' reform and opening to the outside world have immeasurably intensified our understanding

of the historical development of China and the world. This generation of Chinese people is the first to have held in their hands the possibility of realizing other wishes of many eras.

To struggle for these prospects, we must greatly readjust the entire strategy of reform. After 10 years of enforcement, the reform is facing a crucial turning point at which not going forward means going backward and a blind or mistaken move will lead to confusion. Assaulting the fortified positions, or the difficult problems, and building the framework of the new structure is the correct judgement in times of change. Wrong price guidance may cause a temporary setback in storming the fortifications, but this should never and cannot refute the assaulting of fortified positions themselves. On the contrary, the demand of the scientific policy-making of attacking the strong points will be on an even higher plane. Any delay or error in the turning of the strategy will prove to be a historical mistake.

History's evaluation of the 10 years of China's reform should be determined by what has yet to be done rather than by what has already been done. If the Chinese people have been able to depart from the state of 10 years ago of being closed to the outside and of fanaticism and foolhardiness to the hopefulness of today, then at a time when we can turn this slice of the world with an area of some 9.60 million square kilometers around in an orderly fashion, why wait any longer?

"There are roses here; let us go on with the dance."

Footnotes

1. Discussions here and below are not related to the problem of the system of non-whole-people ownership.

2. Here the meaning of position is extensive; it includes not only position in political organs but also "position in economic, religious, educational and military organs and, in addition, status with respect to age and sex, status in family groups, status in racial and national groups and status or official position in other prestigious categories." (See Gerhard E. Lenski, "Power and Special Power: Theories on Social Levels," Zhejiang People's Publishing House, 1988 Edition, pp 73-75.

3. It should be pointed out that the grades in a power economy, like the grades in modern administrative management, are different in essence from the system of investment of rank of the middle centuries. The former rules out succession and does not possess corresponding rights and privileges. Therefore, to merely ascribe the rights and interests under the socialist traditional system as belonging to the realm of rights and interests earmarked by grades is not correct. In reality, they are earmarked by functional power, and among them are the two essential elements of regulations and grades. Here, which essential element is more basic is determined by the basis of the legitimate character of the power. When

power takes civilian power as the basis for endowing power, grades grow out of regulations. But if the highest grade is outside of the restrictions of the regulations but can also formulate and change the regulations, then grades are not essential.

4. In contrast to this, under the condition that the sources of power-endowing of properties are pluralistic, the division of work in the internal functions of an enterprise cannot grow into general social administrative grades.

5. This point is rather important. For example, our country's town and township enterprises also have the problem of unclear property right relations (so-called system of ownership by the whole people in towns and townships).

6. In essence, the realized degree of democracy and the realized degree of manpower capital in economics are closely related. This article will not discuss this topic, but researches in modern economics have revealed the "undemocratic character" of the sheer meeting of people's desire for election by votes. This refreshes people's understanding of the essence of political democracy (see Henry le pa ri [0519 1584 2480] "New Liberalism Economics in the United States," Beijing University Publishing House, 1985 edition), but generally speaking, whether or not an ordinary citizen has the right to take part in election by votes (principally government election) is considered as a simple and relatively representative criterion in judging democratic rights and the political system. This article will emphasize an economic analysis of a citizen's rights.)

7. Sociological research has shown that exchanges through the reciprocal provision of services between men or social bodies constitute the general content of social life (changes mentioned here refer not only to exchanges which can procure external remuneration but also those exchanges from which mental or physical satisfaction can be obtained such as friendship, love and so forth. But formation of attachment relations in nature is caused by the imbalanced nature of the exchange, that is, if one party of the exchange can only unilaterally receive benefit from the other party, has no way to compensate in return but also cannot give up this sort of exchange (frequently compelled by one's own demand), it can only offer its own subservience to the other party and this is also one way of restoring the balance in the exchange, despite that it may be the last choice that people can make. See Peter Bulow's book *Exchange and Power in Social Life*, Hua Xia Publishing House, 1988 edition).

8. Birth of the modern democratic system is associated with the existence of independent class, levels and grades and social groups. For example, in the early period of Europe the appearance of independent nobles of the land, and the growth under the sovereign power of the middle centuries of the beginning of independent cities

and towns, independent universities and other democratic citadels all marked the earliest branching out of the democratic system. Brutal force can overcome another brutal force but cannot directly give birth to a democratic system. In China's history the extreme violence of brutal forces has been known the world over but there has been no connection with democracy. This serves as evidence.

9. When talking about elevating man's quality, many intellectuals have loudly called for increases in investments in education and acclaimed the importance of education. Nevertheless, of equal or even greater importance is that there should be a correct social assessment or evaluation system for manpower capital. This is realistic education which more convincing than merely making loud calls.

10. It should be pointed out a socialist traditional pattern under certain special circumstances can make an adequate assessment of manpower capital, such as in certain sectors of physical education and culture and arts, because in these sectors the assessment criteria are simplified or unitary and are highly technical or mechanical in character and make the label type of social assessment and individual assessment unified.

11. When reform has still not been separated from the use of functional power and changed to using property right to demarcate people's basic economic relations, the form of reform regardless of any changes (like the so-called "market-wise reform," which in reality has not exceeded the sphere of delegating power and ceding interests).

12. Among the economic circles in our country a viewpoint in circulation is that delegating power to the localities is of an administrative nature and delegating power to the enterprises of an economic nature. As it is seen now we fear that this concept cannot stand. In comparative economics, making "the leadership at the highest level make fewer decisions and allowing the enterprises to make more decisions" is listed as typical of delegating power of an administrative nature. (See "System of comparative Economics," By Di-Ai-Der-Lei-Nuo-Zi [5530 1002 1795 7191 6179 5417] carried in "Selected Contemporary Foreign Economic Essays," Vol 9, published by the Commercial Press, 1986 edition).

13. The existence of properties which cannot be divided among enterprise's staff members and workers can only be found in enterprises under the cooperative system. But in a stock-holding system, the so-called enterprise share poses a problem. If the whole of the dividends are distributed to the staff members and workers as an encouragement and fringe benefit, then it is actually the staff's joint stock and if the staff members and workers voluntarily agree, then it will naturally be possible. But if, as advocated by many people, reinvestment by the enterprise is to be made, then there arises the problem of increasing the volume of stocks. Under such conditions,

when old enterprises invest but do not increase the shares, it is tantamount to making an offering, without compensation, to the whole body of share-holders. On the other hand, if one side volunteers to add to the shares, then it violates the principle of the equal rights of all share-holders (and enterprise shares are one of them).

14. Here are two levels. One is a lower level, manifesting ordinary workers and peasants' children who have discontinued their studies after middle or primary school; the other is a higher level, that is, where diplomas from universities or colleges or specialized institutes of learning are a must and sufficient to knock at employment's doors, but standings above levels of research workers or fellowships are considered as investments without any effect.

15. The fact that despite constant banning, various kinds of administrative levies are still in force strongly denotes a problem. Administrative subordinacy results in a lack of competition between governments for enterprises; unclear residual subordinacy leaves the enterprises short of fighting power to boycott levies; lack of restriction by civilian power causes official power to become fearless; and thus this vicious tumour of levy parasites will naturally spread for wide.

16. This is a large and difficult problem in the functional power economy: Not enforcing the term-of-office system causes people to perch on their official status "until death," whereas enforcing the system causes people to engage in short-term acts and also makes people more urgent in their desire to use power to achieve gains.

17. According to a newspaper report, at the present time of consolidating the economic order, the many delegates attending a seminar on placing orders for products in order to meet unexpected needs in the course of the conference would send orders abroad for motor vehicles and drivers. Presumably these delegates qualified to ride in special cars were on the list of officials.

PROVINCIAL

Beijing Party Secretary on Enterprise Reform 40060464

[Editorial Report] BEIJING RIBAO in Chinese gave front page coverage on 18 Feb 89 to the speech on enterprise reform that Beijing Party Secretary Li Ximing delivered at a recent municipal conference. According to Li, Beijing enterprises must overcome three major problems in order to expand enterprise reform. First, he said, enterprises must uphold the integrity of their contracts. Enterprises that fail to meet contractual obligations should be required to make up the difference by withdrawing some of their own disposable funds and reducing the responsible managers' and workers' salaries. Since the current tax system encourages short term behavior, contract lengths should be extended as a

means of prevention. Secondly, enterprises must exercise self-restraint. They must abide by financial, taxation, and pricing regulations and set wages and bonuses rationally. Those that assume total responsibility for their profits and losses or that implement the shareholding system must maintain operative accountability and not rely on the state for financial bailout. Finally, improvements in labor force conditions must continue. Labor policies must be set forth clearly; everyone should have equal employment opportunity; employers should have the right to hire and fire; and employees should be allowed to move in or out of their jobs at will. New avenues of employment should be opened up to absorb the surplus labor, and training programs should be established to prepare workers for these jobs. Additionally, a social security system must be developed to assist the unemployed workers.

Problems in Operational Contract Responsibility

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YANJIU [TECHNOECONOMICS AND
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[Article by Wang Xiangrui 3769 4382 3843: "A Brief Discussion of Problems Confronting Enterprise Operational Contract Responsibility and Measures To Resolve Such Problems"]

[Text] The extension of the operational contract responsibility system has greatly invigorated Shanxi's enterprises and effectively advanced restructuring of the province's entire economy and promoted the province's economic development. Experience has shown that operational contract responsibility is an effective means by which to invigorate enterprises and must be continued. Yet a number of new contradictions have arisen as the system is carried out. Conscientious study and resolution of these contradictions will certainly help to round out, improve, and advance the system; to invigorate enterprises; and thus to advance restructuring of the entire economy.

I. Contradictions Involved Between the Diversification and Standardization of Contract Responsibility

Diversification of the forms of contract responsibility employed in Shanxi has occurred as follows.

A. Diversification of the terms and content of contracts, which generally has taken the following forms. (1) The two guarantees and one link, namely, ensuring that taxes are paid and profits are remitted as stipulated by regulation, ensuring that enterprises successfully undertake economic transformation and possess the reserves needed for expansion, and linking wage bills with profit tax remittance. (2) Progressively increasing profit remittance, in other words, setting base figures and incremental increases for profit remittance, which are to be maintained for several years without changing. This form of contract responsibility will only work when

products are marketable and markets and the external environment are stable. (3) Establishing fixed amounts of profit remittance, namely, setting profit remittance base figures and permitting enterprises to keep all output produced in excess of the figures. These types of contracts are set for several years and are suited to enterprises that are financially strapped and in need of assistance and that produce goods that are not very profitable but needed by society. (4) Sharing of excess profits, namely, divvying up profits in excess of the remittance quotas. These contracts, which may set for as long as needed, facilitate macroscopic control and benefit both the state and enterprise. (5) Input-output contracting. In addition to these types of contracting, there are also "loss reduction" and "subsidy" contracts for enterprises showing losses or few profits. The great variety of contracts has led to a diversity and simplification of contract targets and has made the target system irregular and imperfect.

B. Diversification of the forms by which contractors are selected, as follows. (1) Appointment, namely, the designation of contractors by government departments in charge of administering enterprise affairs; (2) task undertaking, under which personnel within an enterprise who agree to undertake a task are approved by enterprise administrative departments as its legal representative; (3) letting contracts through bidding, which is practiced by some enterprises but is restricted to the personnel of the contractee enterprise and thus narrows the range of candidates for selection; (4) letting contracts through bidding open to the entire public, which practice is employed by a small number of enterprises. The great variety of ways in which contractors are selected has made the process irregular and opened the way for administrative interference in contracting. Thus some enterprise administrative departments select their contractors internally before soliciting bids; certain bidders are favored and others disfavored, so bidders are not treated equally; some localities, on the pretext of improving organization, arrange personnel from within the contract group; and some localities even use their power to make things difficult for competitors they do not like. These practices prevent employees' democratic rights from being respected and fully developed.

C. Proliferation of contractees. Because the notion that the state owns enterprises belonging to all the people is "vague and sweeping," the problem of who specifically should represent the state in exercising ownership and letting contracts arises whenever separation of ownership and management is effected. Lack of clarity on this issue has led some localities to permit a multitude of agencies—bureaus administering enterprise affairs, financial bureaus, economic commissions, banks, labor departments, personnel organizations, and the like—to exercise ownership and let contracts jointly; each target in such contracts is considered and issued separately by the relevant agency. This practice is beyond reproach in terms of theory but in practice creates many problems because these agencies are government organs that let

contracts and exercise state power on behalf of the state. The practice makes things difficult for contractors, failure to define who the contractee is makes it impossible to fix responsibility for problems whenever they arise, and the practice impedes optimization of owners' overall interests.

Because China remains at the preliminary stage of socialism and there is great imbalance in its economic development, conditions within enterprises vary considerably, which fact dictates that we cannot employ a single model or do everything "in one stroke" in our effort to invigorate enterprises but must tailor measures to suit each firm. But this by no means implies that we may reject or even dispense with regularization of operational contract responsibility. On the contrary, it is precisely the great variety in enterprise conditions that makes it so necessary to attempt regularization. To enable the operational contract responsibility system to develop more healthily and to effectively resolve the contradiction between diversification and standardization, I believe we should adopt the following measures.

First, we must introduce the mechanism of competition, initiate bidding for contracts across the board, and strive to regularize bid tendering and acceptance procedures. We must, as quickly as possible, draw up laws and regulations stipulating the legal responsibilities and obligations of bid solicitors and bidders and specifying standard procedures for bid solicitation; strive to make bid evaluation more scientific and systematized; specify qualifications for different levels and different managers; establish and perfect standards for the evaluation of these qualifications; insist on industry and expert evaluation of bids; and strive to make selection more scientific and rational and to make the entire bid solicitation system rational through and through. We should also eliminate contract letting by multiple contractees and have enterprise administrative departments serve as "the one and only contractee." And to enable these departments to serve this function better, we might consider putting them in charge of state property and have them exercise the rights of ownership. This not only would help improve the results of contract responsibility but is also necessary for the next step in enterprise restructuring.

II. The Contradiction Between Insufficient Collateral and Profit-Loss Accountability

Enterprise contracts in Shanxi commonly require collateral, usually stipulating that enterprise contractors put down a certain amount of cash, that members of contractor groups pay a certain amount of cash to enterprises as collateral, or that some personal property be used as collateral, and that enterprises failing to fulfill their contract obligations or suffering losses must use their retained profits to compensate and even tap employee benefits, bonuses, and even wages to compensate when losses are incurred, so as to demonstrate that enterprises are able to bear full responsibility for their

profits and losses. But, in fact, this is not possible, for when property is used as collateral, usually very little property is put down, and thus this little bit of collateral is completely useless in the event that enterprises incur losses; when enterprise retained profits are used as collateral, in reality the assets employed under this form of collateral naturally belong to the state, so the use of this form amounts to using state assets as collateral; and the use of employee benefits and bonuses as collateral has little punitive effect, cannot resolve any problem, and thus is accountable only for profits not losses, for it is the state that foots the bill, because property belongs to the state, and enterprises possess only managerial authority and lack property with which to bear their losses.

To better resolve this contradiction, some Shanxi enterprises have experimented with entire-party collateral contracting, but because collateral under this approach only bears risk and doesn't earn any return, plus the fact that it is the "legal person" that assumes contract responsibility, employees object to pledging collateral, and entire-party collateral adds up to much less than enterprise fixed capital, yet we cannot require employees to put down more cash. Some localities, on the other hand, are carrying out entire-party collateral-equity systems, under which employee collateral serves both as equity and as collateral; in other words, when enterprises complete their contract targets, employee collateral is treated as equity and employees may share in dividends, and when enterprises incur losses or fail to fulfill some of their contract targets, employee collateral is treated as collateral and functions to compensate the loss or unfulfilled targets. While representing an advance over entire-party collateral contracting, this approach nevertheless suffers from a number of shortcomings. Since enterprise ownership relationships remain undefined, enterprises naturally can "risk equipment" to obtain more dividends for distribution. This form of contracting, which is suited to situations in which the state directly controls all property, invariably leads to ossification of the operational mechanisms involved in the transfer, combination, and reorganization of enterprise factors of production.

I believe that this problem can be resolved by effecting equity-collateral contracting. Specifically, existing fixed assets should first be converted into state equity in enterprises. Where enterprises have retained profits, the profits may be converted into equity shares and distributed to employees in proportion with employee contribution to the firms' performance; if such assets remain insufficient, employees may be required to put up additional funds and buy in on a per-person basis. Where enterprises lack retained profits or suffer losses, separate rates should be set for enterprise chiefs, middle ranking cadres, team and group leaders, or normal employees, and all employees be required to buy in at their respective rates. The total amount of such paid-in capital should be equal to the enterprises' annual profits or

losses. And when this capital is raised, a board of directors should be established to oversee it, so that the contractor has to be responsible both to the state and the board.

This approach has the following major advantages.

(1) Because employees put up a considerable amount of capital and because the capital also serves as collateral, dividends are distributed by share whenever the enterprise turns a profit and losses, whenever incurred, are defrayed by share, thus ensuring that enterprises are truly accountable for their profits and losses. (2) Because the paid-in capital can only be used as collateral or pay out dividends and cannot be withdrawn, enterprises will possess a stable supply of funds, which fact will greatly alleviate enterprise fund shortages. (3) Enterprise fixed assets will have an owner—the enterprise. In assuming contracts, enterprises must be accountable not only to the state but also to enterprise board of directors, which have their own interests, and many enterprises must also bear accountability for their employees' equity. This will greatly reduce contractor short-sighted behavior. (4) This form of contracting will greatly enhance employees' sense of responsibility and of being masters of their own affairs and thus provide incentive to build enterprise assets. For the joint-stock system will make employees realize that some assets belong to them, and this fact, together with the fact that employees will be motivated to seek dividends and retained profits, will make employees redouble their efforts and work harder; similarly, the use of a considerable portion of retained profits for fixed-capital investment naturally will serve to dampen the current surge in disposable income. (5) This form of contracting is a good vehicle by which to separate ownership and management. Currently, enterprises deal with the government when they undertake contracts; because ownership belongs to the government, the latter can interfere in enterprises operations, which are supposed to be autonomous, in many ways, which fact makes it very difficult to achieve true separation of ownership and management. Equity-collateral contracting, on the other hand, squarely resolves this problem.

III. The Contradiction Between Rigid Contracts and Inflation

As restructuring advances, especially after the central authorities devised price and wage reform programs, many enterprises assuming contracts face severe challenges and tests, and due to shortages of skyrocketing prices for energy and raw materials, many firms have seen their wage subsidy costs rise, face greater market risk, and receive lower economic results, which has created tremendous contradictions vis-a-vis contract targets. Many enterprise contractors have requested that their contracts be revised, and some contractors have even applied to withdraw from their contracts.

Everybody, from enterprises to enterprise administrative departments, find this problem nettlesome and difficult to resolve. Under these conditions, government agencies in many localities have unequivocally announced that contract targets may not be readjusted and that contracts are to be continued as is. I believe that, for the vast majority of enterprises, rigid contract base figures should be retained and contracts continued as is, so as to uphold the sanctity thereof. Only thus will enterprises be subjected to pressure, be given incentive, and be forced to fight with their backs to the wall; and only thus will the market system be created. Revising contracts will weaken them, cause them to lose their sanctity, and greatly reduce the sanctity of the contract responsibility system. Moreover, frequent renegotiation of contracts is impermissible in a rapidly functioning modern market economy.

This contradiction can only be resolved by advancing restructuring; we cannot "beat a retreat." We must arouse ourselves, pull together, and guide enterprise restructuring down the road to further advance. Restructuring has reached the assault stage, and price and wage reform cannot be ducked and must attacked head on. Enterprises must orient themselves internally, strengthen management, tap potential, and devise all sorts of ways to absorb increased costs. Township enterprise mechanisms must be into enterprises and flexible management effected. To improve labor productivity, we must optimize labor organization and deployment, reduce enterprise staffs but not wage bills, and treat new industry initiated by superfluous personnel as new collective enterprises. The Enterprise Law must be implemented as a function of government departments, as well as the further decentralization and implementation of enterprise management authority, permit enterprises carry out large scale importing and exporting, create more and better external conditions under which enterprises can assume operational contract responsibility, and help enterprises evade their difficulties.

However, in unusual circumstances (for example, when there are major readjustments of tax types, tax rates, and prices of goods subject to command planning) that enterprises cannot cope with or that allow enterprises to profit excessively, contracts and base figures should appropriately be revised or readjusted, for one of goals of operational contract responsibility is to give the broad masses of employees as much incentive for production as possible and to fully tap enterprise potential. And if enterprises, upon encountering irreversible market changes, fail to receive a return commensurate with the effort they put in, their enthusiasm certainly will dissipate, which development would be contrary to the original intent and undermine the motivational effect of operational contract responsibility. On the other hand, continued enforcement of the original contracts of enterprises profiting excessively from policy readjustment would make it difficult to ensure state profits and would encourage such firms, by giving them undeserved benefits, to slacken their efforts to tap internal potential, such

that the more profits the firms retain the more they give out, thereby expanding disposable income. Thus the contract base figures of these firms may be increased.

IV. The Contradiction Between the Merger Mechanism and Operational Responsibility Contracting

The implementation of mergers to promote rational movement of production factors is an effective means by which to advance enterprise restructuring, to optimize resource deployment, and to reduce asset stockpiling and idling and ballooning investment. Nevertheless, a number of contradictions arise when contracting enterprises merge. First is the contradiction that obtains between enterprises mergers and enforcing their contracts. Generally, contracts are for 3 or 4 years. Contracts signed this year have not expired yet. Second, some leaders suffer from ideological deviations, tend to be overanxious for quick results, set transfer and merger targets requiring that a certain number of enterprises be transferred within a year, even try to use mergers to eliminate red-ink enterprises, effect mergers by administrative fiat, and thus disgruntle employees and produce very unsatisfactory economic and social results.

As we all know, enterprise mergers are an unalterable law of the self-development of market economy and cannot be effected by administrative fiat. As to whether contracting enterprises may merge, we must respect their laws of self-development. We must neither assume that they cannot merge just because they have signed responsibility contracts nor allow them to ignore contracts just because they merge.

The solution is as follows. First of all, with respect to contracting enterprises for whom conditions are ripe to merge, we must first of all do a good job of ideological-political work among the contractors and employees of contractors, make the contractors and employees understand the significance of merging, and allay their ideological misgivings. We must also encourage enterprise enjoying pretty good conditions courageously to merge and encourage merged enterprises boldly to transfer their property and not to fear what other people may say. Second, contradictions arising from specific mergers must properly be resolved. For example, there is the problem of the readjustment of base figures for enterprises acquiring other firms and the problem of resetting total wage bills of enterprises involved in mergers. Enterprise administrative departments and other relevant government agencies generally require an increase in base figures; even merged enterprises that had been operating in the red are required, after a certain interval, to have their base figures readjusted; whereas enterprises insist that their base figures should be kept as is or reduced. Enterprises undertaking contracts linking wage bills and results and that take on the personnel from a firm they acquire request upward readjustment of their wage bills, whereas labor departments insist that the wages be kept the same even though staff size increases or decreases, so as to ensure that the original wage bills

do not change. In view of actual conditions in China's economic administrative system, if the acquired enterprise was profitable, the original enterprise's base figures should be transferred to the buyer firm and the corresponding base figures readjusted. If the acquired enterprise had been unprofitable, then its base figures should be retained as is. Since we are trying to perfect enterprise operations through transfers of enterprises, we should add the wage bill of the original enterprise to that of the buyer enterprise so as to facilitate absorption of the staff of the acquired enterprise.

V. The Contradiction Between Enterprise Autonomy and Administrative Interference

Operational contract responsibility not only directly and closely ties the interests of managers and enterprises and enhances enterprise autonomy but also provides firms with a legal weapon, namely contracts, with which to combat illegal interference. This fact effectively promotes the growth and maturation of enterprise autonomy.

Nevertheless, introduction of operational contract responsibility by no means thoroughly eradicated administrative interference in enterprise operations. (1) The fact that contractees usually are enterprise administrative departments to a certain extent heightens administrative interference by these departments, some of which continue to use the methods of the past to oversee enterprises and interfere in enterprise operations. There are a multitude of different reports that enterprises have to fill out, inspection teams visit enterprises in an endless stream, enterprises have to obtain permission from one administrative level after another to take on projects, and red tape abounds. (2) Enterprise administrative departments manage too many things that are not their business. The purpose of responsibility contracting is to transfer responsibility, authority, and interests over to enterprises and to enable enterprises to operate autonomously, to be accountable for their profits and losses, and to independently resolve various problems in their production and other operations. But a major problem at present is that administrative corporations, though abolished, have been transformed into policy bureaus and have established enterprise "groups," some of which are retreats of the administrative corporations, the purpose of which is to create another level to administer enterprises; to siphon off money, material, and personnel; to "cradle" enterprises in their arms; and to encourage enterprises "to seek guidance from the mayor, not the marketplace." This has firmly bound enterprises hand and foot and prevented them from truly being autonomous.

To resolve this contradiction, we must thoroughly restructure the administrative functions of government departments. At present, government departments must transfer more authority downward. The separation of ownership from operation is a fundamental point of

departure for responsibility contracting and a precondition for restructuring of the enterprise management mechanism. It is unrealistic to demand a transformation of this mechanism while failing to grant firms complete autonomy. Beyond the authority previously granted, we must also transfer even more in such areas as personnel, tables of organization, wages, investment, pricing, bank accounts, the sending of fact-finding tours abroad, and exporting. Governments should only deal with one manager, one contract, or one program linking wages and results; as for all other matters that used to be decided by the government, bureaucratic agencies should "eschew approving and administering" and let enterprises decide things themselves.

Given the short-term objectives of economic restructuring, we must decisively restructure the government administrative system so as to suit the needs associated with the effort to establish a new order for socialist market economy. We must create an environment where enterprises truly become completely independent commodity producers and dealers and engage in economic activity in the marketplace on an equal competitive footing; where government agencies are separated from economic activity; where the function of these agencies is to effect indirect macroscopic control; where the existing administrative system is gradually abolished; and where the government-enterprise relations are fundamentally transformed. Once government functions are thoroughly transformed, we must follow the dictates of the principal that "the state regulates the market and the market guides enterprise"; apply economic, legal, administrative, and other measures; change market signals by adjusting interest rates, tax rates, credit, subsidies, and other economic parameters; and work through the market mechanism to achieve the government's goals.

SMALL-SCALE ENTERPRISES

Qingdao's Township Enterprises

40060470

[Editorial Report] An article on p 1 of the 14 Mar 89 issue of Beijing GUOJI SHANGBAO in Chinese reports that Qingdao's 819 export-producing township enterprises exported 620 million yuan worth of goods in 1989, an increase of 100 percent over 1987. Qingdao's township enterprises, by establishing their own direct channels with foreign businessmen through trade fairs, overseas Chinese connections, and visiting delegations, have negotiated over 100 projects and signed 21 contracts. Of the 21 contracts, 10 involved Sino-foreign joint investment or other forms of cooperation totalling \$14.02 million. This was the result of Qingdao's efforts to support the development of these enterprises by giving them preferential treatment such as priority access to energy and raw materials and to funds for technical transformation. In 1988, the number of enterprises whose total exports exceeded 1 million yuan rose from 68 to 126. These enterprises have also made adjustments

to enhance their own development, e.g. increasing the processing of agricultural and sideline products and mineral resources, hastening the upgrading of light industrial and textile products, and delegating labor intensive work to peasant households.

COMMERCE

Beihai Successful in Attracting Foreign Investment

40060475

[Editorial Report] An article in Shenzhen SHENZHEN TEQU BAO in Chinese of 4 Mar 89 p 3 discusses measures that Beihai has implemented since 1984 to enhance the tangible and intangible aspects of its investment climate. It shows how Beihai, which is located on the southern coast of Guangxi and is the only city within any of China's five autonomous regions to be selected for opening up to the outside world, has modernized its infrastructure, simplified contract approval procedures, improved the quality of services offered, and increased overall operational efficiency.

According to the article, the total number of foreign-invested projects approved in Beihai increased almost 100 percent over the period between 1984 and 1987, and total investments jumped by 189 percent. As a result, Beihai was able to diversify its sources of foreign currency, branch out into different kinds of investment, and reap greater returns from its foreign-invested enterprises. Prior to 1988, for example, Hong Kong and Macao were Beihai's principal investors; but since 1988, investments from the United States and Taiwan have come to play an increasingly significant role.

Guangzhou Announces Externally Oriented Economic Goals

40060474

[Editorial Report] According to a front-page article in the 10 Feb 89 edition of Beijing JINGJI XIAOXI in Chinese, Guangzhou hopes to increase the total value of its exports to \$1.2 billion by 1990. This figure represents approximately 20 percent of China's \$6 billion gross national product.

Current projections are for Guangzhou to have over 100 enterprises with exports of at least \$2 million each by 1990. Of these, 35 will have total export values of over \$5 million, 27 will have exports exceeding \$10 million, and Guangzhou expects a few enterprises or conglomerates to have exports reaching \$100 million.

In 1990, Guangzhou hopes to acquire \$1 to \$1.2 billion of direct foreign investment. To achieve this goal, it plans to promote the foreign trade contracted responsibility system, combine technological transformation with

capital construction and absorption of foreign investment, renovate large- and medium-sized enterprises, improve methods of interaction with foreign partners in joint venture companies, and improve the overall business climate.

Guangzhou also plans to expand its economic and technical development zone by 1990 to 3 square kilometers to accommodate 100 to 200 new industrial facilities.

FOREIGN TRADE, INVESTMENT

Focal Points for Future Trade With EC 40060319b Shanghai SHIJIE JINGJI DAOBAO in Chinese 30 Jan 89 p 7

[Article by Zhang Hungwei 1726 1347 0251: "Several Noteworthy Questions on Trade With Europe"]

[Text] The European Community is an important trade partner for China. Since 1975, after both sides had established formal relations, trade volume has continued to grow, from less than \$1.715 billion to \$11 billion in 1987, a growth of more than six times in the 10-year period. It is estimated that bilateral trade between the two in 1988 will not be any lower than that for 1987.

Economic cooperation between the EC and China has made great strides since the 1970's, the scale of cooperation becoming increasingly close with time. However, we can also see that the proportion of foreign trade between the two on each side is quite small. The quota of Chinese imports into the EC is only 1 percent of the EC's total import quota, and exports from the EC to China is only 2 percent of its total exports. This does not seem to be very balanced in terms of good political relations between the two sides. In 1992, the EC is expected to implement market unification within itself. How bilateral trade will develop under this situation, and how the depressing effects caused by the greater market change can be eliminated are questions we cannot help paying attention to.

In the first place, we must understand clearly that the 1992 greater market is a challenge to China. At that time, the EC will become a bloc more mutually interdependent among its members, and take a more protectionist-oriented approach in trade. Enterprises will become more competitive, with even greater exclusion of outsiders. Even though the official line from the EC keeps repeating that the United States, Japan, and developing countries will be treated differently, we still feel a sense of crisis and urgency.

Secondly, the key to development of bilateral trade is in our own self-competitiveness that applies to regulating our whole export structure, cutting down the proportion of primary products, raising product quality, and improving packaging and after-sale service. To achieve

this, we must first complete price reform in China so our products can be competitive internationally, and continue a liberal policy for foreign trade business operations.

Thirdly, we must quickly train a first class group of foreign trade specialists knowledgeable in sales techniques, marketing research, foreign languages, who can grasp marketing changes in Western European countries and master conditions of the world market. This will strengthen the horizontal relationship between foreign trade agencies and research units, for them to cooperate and move China's foreign trade forward.

Fourthly, we must pay particular attention to study and analysis of the greater market of the EC in 1992. At present, the greater market of the Western European community is a hot research topic in the United States, Japan, South Korea, and even Hong Kong and Taiwan. China should assemble resources right away to conduct a systematic study and analysis of the EC's product regulating structure, its export policies, foreign trade patterns, protectionist policies, product specifications, technical standards, technology changes, etc., to make a report that is workable for promoting bilateral trade. Otherwise, with regionalization of global economic markets in the 90's, China can find itself squeezed out of the bloc's collective economic benefits.

Need for 'Westward Orientation' Stressed in Report 40060319a Shanghai SHIJIE JINGJI DAOBAO in Chinese 30 Jan 89 p 6

[Report written up by Zhu Jiaming 2612 0857 2494; participants in this discussion include Liu Zonghao 0491 1350 3493, Guo Fansheng 6753 0416 3932, Zhou Chiaxie 6650 0857 3588, Tian Guang 3944 1684, and Wang Hungyu 3769 4767 7183: "China Still Needs To Open Up A Door to the West"]

[Text] Summary: Stable growth in the economies of various countries of western Asia, particularly during the 90's when it is expected to undergo great development, and the relatively slow development in broad areas of western China show up in increasingly marked contrast. Exports from this part of China are not competitive and the labor force coming in is mostly construction labor. Low estimates of China's economic strength and potential by these countries of western Asia, coupled with their limited understanding, affect their confidence for economic cooperation with China on a large scale. Accelerating development in western China and development of trade westward have great practical significance.

Development of trade oriented westward toward western Asia is an important part of China's comprehensive overall trade strategy, a necessary complement to development of foreign trade from China's coastal region. Without trade development westward, there is no comprehensive overall trade development. Using western

China, particularly Xinjiang's frontier advantage, to open up a foreign trade channel with nations of western Asia has deep and far-reaching strategic meaning for implementing China's comprehensive overall trade development policy and accelerating development of the people's economy. Developing an open communications channel in western China is realistically meaningful in shortening the geographic and economic distances between China and western Asia, North Africa, and even Europe; in expanding the ties between China and nations to the west of China; in improving the economic pattern in China today; in realizing an effective and reasonable allocation of resources; in making proper adjustments to the property structure; and in improving the flow of goods and materials, etc.

Recently, a joint investigating team comprising representatives from the China International Trust and Investment Company [CITIC] and the Xinjiang Autonomous Region conducted a short-term study economic study of six countries—Pakistan, Iran, Turkey, Egypt, Kuwait, and the United Arab Emirates, and came up with some basic ideas that are contained in this report.

Importance and Urgency of a Westward Orientation of Trade by China

Development of foreign trade over the past 10 years has been concentrated chiefly in cities along the eastern China coast. That was due primarily to the development base already there, with its tradition of foreign trade and its face to the international scene.

At present, there is a need to bring the development of western China and the development of foreign trade with western Asia onto our daily agenda for discussion. That is due to the following factors:

1. Stable development in the economies of the various countries of western Asia, particularly their possibly great development in the 90's and the relatively slow development in a broad expanse of western China, shows up in an increasingly marked contrast. If this broad expanse of western China should fall into a "low valley" between the greater development in nations of western Asia and that in eastern China, a serious situation would develop.

2. Economic development in countries of western Asia provides an increasing opportunity for western China to develop trade with them. In the first place, the nations of western Asia make up a large market. Just Egypt, Pakistan, and Iran alone make up a market of 200 million persons, and there is room here for China to expand its markets. Secondly, in the immediate and not-so-immediate future, the techniques of China's processing industries in certain areas will be quite well suited to these countries, comparatively speaking. Moreover, the petroleum-exporting countries of western Asia have a strong desire for "migration of capital eastward." If Kuwait expects to move 10 percent of its foreign investment to

the Asiatic Pacific area focusing on Japan, Singapore, Malaysia, and South Korea, and is considering China, it is very possible for China to absorb and utilize this capital.

3. Development of trade westward is a necessary step for China to reach Africa through western Asia. Moreover, the various natural resources of this region are very necessary to China's long-range development. Because of conditions in China, not only is economic development restricted by the basic structure, it is also restricted by the lack of certain natural resources. China needs to establish, on a global scale, various processing bases for various scarce resources. But western Asia and Africa are much closer geographically than South America and Australia, and development of western China is beneficial to gradual implementation of the concept described above.

4. Development of trade westward is beneficial toward bringing into full play the productivity inherent in a broad stretch of western China, drawing out its potential to activate western China's property structure and to regulate its product structure toward a global orientation.

5. Developing western China can open up new channels, including those by land and by sea, with long-range benefits toward improving the economic ties between China and the international community. At present, China's foreign trade ports are all located in Pacific-oriented cities on the eastern coast. China's development of trade westward can fully utilize the road running from Xinjiang's Kashi through the Hungqilafu [4767 2475 2139 3940] Mountains into Pakistan, finally reaching the port of Karachi along the Arabian Sea. This port exits into the Indian Ocean. The distance from western China to this port on the Indian Ocean, as compared to that from the closest port on the eastern China coast to this location, is closer by about 2,000 kilometers. Not only is this beneficial to changing the illogical flow pattern of goods between Eastern and western China, it is also good for making some adjustments to the distribution of productivity.

At any rate, China's development of a westward trade orientation is an important component in China's strategy for open trade relations with the outside, and a complement as well to foreign trade activity along China's eastern coastline. Without it, there is no comprehensive overall open trade. This approach is very important to accelerating construction in western China, reducing the east-west distance that is becoming increasingly acute, for China to reach western Asia and even Africa economically.

It must be pointed out that not only must China be like great powers such as the United States and the Soviet Union in reordering its policy toward western Asia, it must be like Japan in expanding its influence over this

region, and it must also be like Hong Kong, South Korea, Taiwan, etc., in strengthening its influence in the areas of capital, technology, trade, etc.

Strategy for Implementing China's Westward Orientation

To strengthen China's influence in regions of western Asia by implementing a policy of open westward orientation, it is not only necessary, it is also possible, from the standpoints of economics and politics.

1. China has a traditional cooperative relationship with some countries in southern and western Asia and North Africa. At present, the possibility of different forms of regional cooperation is still existent. Such cooperation is the important guarantee for China to use the China-Pakistan Road as a continental bridge to reach the Indian Ocean and even the Persian Gulf. If China establishes joint enterprises with Egypt in markets of the Arab world and Africa, this approach which allows China to reach the great Arab and African markets can similarly allow China access to needed natural resources. As for some petroleum-producing countries around the Gulf, some of them, as mentioned before, have strong ideas about the "migration of capital eastward." As long as their profits are assured, they have potential for lending money and investing in China. In using capital resources from these countries, the Soviet Union has made great strides. Since 1986, Kuwait and the Soviet Union have made a series of joint venture agreements covering petroleum, construction etc., involving capital investment reaching \$1.36 billion. In general, China's strengthened cooperation with these countries is beneficial to using capital and natural resources found there to open up even broader markets.

2. China is faced with an important opportunity as the result of overall economic expansion in various countries of western Asia. First, after conclusion of the Iran-Iraq war, Iran devised a great plan for "rebuilding Iran" that contained provisions and requirements China can more than fully meet in some areas. Second, various countries in western Asia, especially Turkey and Egypt, hope to improve their status of technological cooperation, and welcome China's investment to build plants and factories and export its technology. Third, for China and the various countries of western Asia, their trade is generally in a favorable balance situation, and these countries hope they can expand their exports to China, or can cooperate with China to expand their exports to a third country. In this area, China plays an active role. Fourth, the financial setup of Kuwait, the United Arab Emirates, and some of their families hope to engage in financial activities in Hong Kong and other financial markets in Asia, and penetrate the Chinese financial markets after they are opened to find cooperative partners. Fifth, possibilities exist for several places in western Asia to become regional financial centers and to provide opportunities to better utilize "petroleum dollars" on an even wider scale. At any rate, many

opportunities exist for present development of westward trade, and cooperation with countries of western Asia in business, investment, and finance.

It must be pointed out that the basic image of China held by countries of western Asia is better than the ones they have of the United States and the Soviet Union. The countries of western Asia are generally quite friendly toward China. Though this is related to historical, religious, and racial ties, etc., and geographical ties as well, it is also related to the proper stance of China's foreign policy with regard to this region. However, because of great competition among numerous Chinese products in this region at present, and because the labor force coming from China is construction labor, these countries are unable to have an overall understanding of China's economic strength and potential; these factors affect the confidence these countries have about economic cooperation with China. Under such conditions, increasing the mutual understanding between China and countries of western Asia, accelerating economic reforms in China, and establishing a basic policy of economic openness with these countries are all necessary to overall improvement of the economic relationship between them and China.

The Role of Xinjiang and CITIC in China's Westward Orientation

1. In China's orientation westward, particularly with respect to intensifying its economic relationship with Africa, the role played by Xinjiang is very important. If the strategy for a westward orientation is implemented, Xinjiang becomes a base of operations and a bridgehead. In the first place, Xinjiang has a number of channels opening to the Indian Ocean; in the second, Xinjiang has a historical tradition of communication with countries of western Asia; in the third, economic construction in Xinjiang since the founding of the state is the preliminary economic foundation for development westward; in the fourth, cadres in Xinjiang already possess a good understanding and ideological preparation for westward development; and in the fifth, Xinjiang and countries of western Asia are in the process of establishing many economic ties.

2. CITIC also plays an important role in this westward opening and development of economic relations with countries of western Asia. The governments, financial structures, and real estate interests of western Asian countries have great confidence and interest in CITIC, and the company has set up bases for preliminary work in trade and other areas.

For these reasons, the cooperation between Xinjiang and CITIC is beneficial toward implementing a strategy for developing trade with western Asia.

Factors Limiting Development of Coastal Region's Externally Oriented Economy

40060304 Beijing JINGJI KEXUE [ECONOMIC SCIENCE] in Chinese No 6, 20 Dec 88 pp 54-56, 79

[Article by Zhao Haicheng 6392 3189 2052: "A Summary of Opinions From the Discussion Group on Externally Oriented Coastal Theory"]

[Text] A meeting to discuss theories for the coastal region's externally oriented economy was jointly held by the Shandong academy of social sciences, the Shandong provincial economic trade committee, and the people's government of Weihai city. The meeting took place in the city of Weihai from 10 to 14 August. The following issues were discussed at the meeting.

I. Connotation and Basic Characteristics of Externally Oriented Economy

Comrades at the meeting felt that China must vigorously develop an externally oriented economy as part of the huge wave of economic internationalization. However, everyone had different opinions regarding the connotations and basic characteristics of the concept "externally oriented economy."

Some comrades felt that externally oriented economy refers to a type of economy which is open to and interconnected with the outside world, having a certain degree and scope of externality. In terms of scope, it is multinational and interconnected to the global economy. In terms of degree, the economy's interconnection to the global economy is more than one-half of total economic output. Thus, strictly speaking, externally oriented economy refers to the economic activities of the entire, or more than half the economy of an economic region. In either case, the economy is open towards the international market.

Other comrades held that an externally oriented economy is one which has "its feet in the domestic economy and its face towards the world." It is only if the proportion of import and export reaches a certain level in total national output value. In that case, only the economies of small states such as Singapore which are highly dependent upon the outside world can be considered externally oriented. In that case, Japanese and American multinationals around the world, conventionally called "trading countries," turn out to be "domestically oriented economies." Such a division obviously is unrealistic and it does not work in theory either. Furthermore, it is unsuited to China. Therefore, we should denote an externally oriented economy as "a rather highly internationalized economy."

Some comrades disagreed with the economic nature of the terms used, saying that an externally oriented economy is a type of model. Using the model requires participation in international competition and exchanges. On the one hand, the model necessitates full

utilization of international markets, and large exports of a country's own commodities and labor. On the other hand, it means full utilization of foreign loans and resources, imports of various production equipment and raw materials, and introduction of various advanced science, technology, and management experience.

Still other comrades felt that an externally oriented economy is a kind of economic strategy which includes the two aspects of export guidance and import substitution. If an externally oriented economy has the sole connotation of export guidance, then, with reference to China, a large country with great potential domestic demand, this may lead one to neglect the development of potential domestic markets as well as essential import substitution while hindering sustained and stable increases in exports. Likewise, making an externally oriented economy a strategy proposal may mean better reaction to changes in domestic and foreign economic circumstances and promote the development of China's economy.

Other comrades believed that externally oriented economy is a kind of economic motion. Adopting this motion requires making foreign trade a guided industry and using foreign trade activities to guide and spur on the development of the entire national economy.

Since there was such a divergence of opinion regarding the connotations and understanding of an externally oriented economy, with regard to its basic characteristics, a certain difference still remains about describing the details of its specific nature.

Some comrades felt that an externally oriented economy has five basic characteristics: (1) Participation in an international division of labor; (2) production must be directed towards the international market; (3) the purpose of all imports and introductions is further exports and development; (4) in general, the characteristics of high technology, high quality, high efficiency, fast rhythm, and high returns; and (5) relatively great risk.

Other comrades thought that an externally oriented economy should have the following characteristics: (1) Foreign trade holds an important position in the economy, and to achieve a higher industrial structure and international coordination, there is vigorous development of internationalization on the economic, financial, enterprise, and research development levels. (2) There is great leeway regarding economic matters, and strong sensitivity to changes as well as the ability to meet with global economic emergencies. (3) An externally oriented economy does not reject import substitution. It also does not purely encourage exports, but rather, the two are compatible. They are organically coordinated and coexist. (4) The weighted index of an externally oriented economy should not be a pure percentage of imports or exports, but should lay particular emphasis on the degree of externality. That is to say, an externally oriented economy's direction of development should not be

merely restricted to expanding import-export trade. It must also pay great heed to a high degree of financial internationalization, opening to the outside world and internationalizing information, the multinationalization of enterprises, and cooperation on international scientific and technical exchanges and personnel interchanges.

Other comrades held that as a working method, an externally oriented economy's basic characteristic is its operating mechanism of readjustment to the international market. This means that the proportion of foreign funds and technology introduced becomes an unrelated factor, since coastal regions can both utilize foreign funds as well as domestic, and use foreign as well as domestic technology. An economy can become externally oriented by simply having the commodities of its enterprises pierce the international market, get a firm foothold in competition there, and seek to develop.

II. Externally Oriented Economy Development Strategy and Path

What strategy should we take to develop China's externally oriented economy? What development path should we take? This relates to the important issue of whether an externally oriented economy can develop healthily. Comrades at the meeting had fiery discussions on this point.

Some comrades thought that the organization and implementation of an overall strategy for the development of the coastal region's externally oriented economy means formulation of even more detailed strategies. That is to say, we must choose a composite economic development strategy developing industry and agriculture in balance, starting from changes in the international economic situation and China's superiority. This is because China historically has been a developing country based on agriculture. The losses will certainly outweigh the gains if we neglect or sacrifice agricultural development in the one-sided effort to industrialize. Viewed in terms of global ecological imbalances and climatic patterns, the question of agriculture will be the most severe test for mankind. We must give priority consideration to agricultural development. In addition, it obviously is rather stupid to find ways to use imported grains to remedy grain deficiencies since it is hard to avoid the worldwide trend of higher prices on agricultural commodities. In sum, we can achieve stable and rapid externally oriented economic development only by using composite development strategies mixed with balanced development strategies under unified economic action.

Other comrades still felt that rapid development of the externally oriented economy is at the cost of instability of economic potential. China is a big country. Great risk and tremors in the economic development process are inadvisable. In order to develop the coastal region's externally oriented economy with stability, we must flexibly use the externally oriented economy experience

of Asia's "four little tigers" in China's coastal region in an organic two-sided strategy of imbalanced and multifarious development. An unbalanced development strategy neither requires that every department and industry in the national economy of a country all develop equally nor that supply and demand are balanced. Rather, it selectively develops certain key industrial departments (guiding industries), using them to coordinate from the front or the rear to spur on the development of other industrial departments. An unbalanced development strategy entails five key points: (1) Stress development of the coastal region to spur on the inland; (2) stress development of export industries in the coastal region to spur on the development of non-export industries and upgrade the industrial mix; (3) medium- and large-scale enterprises should constitute the network of export industries in the coastal region, with small-scale and rural enterprises as the goal; (4) technology and equipment should be the focus of the coastal region import mix, supplemented by secondary commodities and raw materials, while strictly limiting volume consumer goods imports; (5) the Asian-Pacific region should be the main choice for the coastal region's international market, along with promoting trade in all directions.

A multiple development strategy is the choice because China's economy at present still is in a dual structure of industry and agriculture. The scale of industrial development varies, such that the level of national economic development has a clear characteristic of being high in the east and low in the west. A multiple development strategy entails the following: (1) guided industrial diversification; (2) multiple forms of using foreign funds; and (3) multiple export markets.

In sum, we can reduce and disperse risk by organically uniting the two strategies for developing the coastal region's externally oriented economy. Clearly, this is the best strategy choice.

Other comrades felt that an appropriate externally oriented economy strategy is one of export guidance and import substitution supporting each other, although particular emphasis might be placed on one or the other under different conditions and at different times.

What path should China's externally oriented economy take? Many representatives proposed that owing to China's special national conditions, we cannot simply imitate countries or regions of burgeoning industry to improve China's economic competitiveness. We must learn from their experience, and on this basis, find a path suited to China's national conditions. So, what would an appropriate path entail? A number of comrades suggested that China's export industries are suited to multiple rolling style development. Since our industrial departments are relatively complete, in the process of creating export industries, although we will form a certain order of precedence, yet, the entire development process mutually intersects, proceeding synchronically. There concurrently will be guided exports of a certain

number of commodities and import substitution of others, rather than stages of one or the other. At the same time, China's export strategy is suited to promotion and exploiting its positive nature on various fronts, while opening potential markets. In addition, we must prop up famous brand commodities which the international market relies on. The state should stress gradual fostering and promotion of famous brand products, moving them from regions to industries, and from industries to enterprises along with the development of enterprise unions.

Other comrades indicated that we must start from reality as each region develops an externally oriented economy and chooses a structure, by accurate choice of its own strengths and weaknesses, making resolute decisions, breaking new ground, developing new products, and taking its characteristic path. This path mainly is a better industrial mix, with more exchange earning industries. While improving the industrial mix, we must have high regard for developing a new force of rural exchange earning enterprises, and seize upon exchange earning agriculture. Likewise, we must better readjust the distribution of regional industries and develop a regional horizontal externally oriented economy that is multi-level, multi-channel, and multi-formatted, firmly upholding the principles of equality, mutual benefits, and joint development that is variegated.

Other comrades noted that the path for the externally oriented economy is one of upgrading economic returns. Thus, merely seeking a better industrial mix is inappropriate because the mix can only be flexible. That is to say, the development structure of the externally oriented economy includes the industrial mix, the technology mix, the enterprise organizational structure, etc. Readjustment of these kinds of economic structures has to be in order to improve economic returns. Obviously, the path of development of the externally oriented economy should be one which has better economic returns than the domestically oriented economy. Clearly, a major issue for the path of development is the level of economic returns.

III. "Introduce From Abroad and Coordinate Domestically," and the Issue of Expanding Export Earnings

Important elements of participation in the international economic cycle are good "introducing from abroad and coordinating domestically," and expanding export earnings. They are very important for speeding up the coastal region's externally oriented economy. Therefore, they became a hot topic among the comrades at the meeting.

Some comrades noted that the notion of foreign introductions is rather broad, encompassing funds, technology, equipment, talent, and management experience. Moreover, each item may be introduced by various methods. Taking foreign funds for example, there are more than 10 methods, including three forms of import processing and compensation trade, joint ventures,

cooperative development, leasing, bond issuance, international credit investments, intergovernmental loans, and international financial institutional loans.

Other comrades said that the key to accelerating introductions from abroad is the degree of policy openness along with the choice of strategies for utilizing foreign funds. We must recognize the important role that introducing foreign funds and loans has for promoting better economic cycles and improving economic returns. To improve the investment environment, we have to implement more open policies. Regarding strategies for utilizing foreign funds, we must earnestly solve the problem of irrational investments. China's present introductions overly stress consumerism. The cycles are long on introductions of a productive nature. In the fast changing global market, this is disadvantageous to economic coordination. At the same time, we frequently give priority to equipment imports and neglect administrative and management experience.

Other comrades held that horizontal coordination is the big trend in economic development. In China, if we allow every export producer to look toward the international market, it will be hard for them to be victorious in international competitiveness by direct imports and exports. A more realistic route is to strengthen export production among enterprises, and to create a series of import-export enterprises by uniting producers with enterprises that have foreign goods. As for the form of uniting enterprises, we could try on a trial basis a bond system; creation of large-scale enterprises to be relied on; a new force of rural enterprises; a "united fleet" led by foreign trade; turning "scattered troops at war" into "concentrated forces at war"; and formation of multinational firms that produce various items, are managed in various ways, export through a variety of channels, and give overall consideration to domestic and foreign sales; thereby truly making an enterprise mechanism suited to development of the externally oriented economy.

Other comrades believed that the main factors limiting export earnings of coastal regions are, first, the issue of personnel. Second, the matters of exports losses and the contradiction between domestic and foreign sales. Export losses have become a big burden for national and local finances. To solve this problem, on the one hand we must enhance export earning ability, and on the other, propose a big appreciation of renminbi. These will help solve export losses.

In China, there is a marked contradiction between domestic and foreign sale of certain commodities suitable for sale on the international market. The main reasons are: (1) rising production costs and price inflation; (2) overly fast domestic consumption demand; (3) intensified competition for ports. We must adopt two-pronged measures for this situation: one, restrict domestic consumption demands, encourage the people to save, and support the development of export exchange earning industries. Two, limit the policy of encouraging and

rewarding exports, and poise enterprises exactly towards global markets. A number of comrades felt that once they are open and in operation, the "domestic battle" in which ports vie with each other in collection prices on goods and selling prices makes some high here, and others low there. Foreign trade departments jostle for low cost commodities and toss aside high cost ones. Since domestic resources for export loans are limited for a certain time period, this can have two consequences: one, the loss of some traditional export markets, meaning a shrinkage of overall export scale. Two, higher overall domestic prices of low cost commodities, bringing on a vicious economic cycle.

Shanghai Conference Supports Foreign Trade Agent System
40060466

[Editorial Report] Shanghai SHIJIE JINGJI DAOBAO reports on 20 Feb 89 p 4 that participants at an 18 February conference on the foreign trade agent system unanimously agreed that this system provides a highly feasible alternative to the former procurement system. The main advantage is that it puts export-producing enterprises in direct contact with their foreign customers. Shanghai's Jiafeng Cotton Textile Mill registered a 2.5-fold increase in foreign currency earnings and a 3.9-fold increase in profits since adopting this system three years ago, according to director Cheng Jialu. A number of participants noted, however, that the past year's implementation of the foreign trade system has been adversely affected by the shortfalls in funds and energy, the shortage and high cost of raw materials, and irrational exchange rates. They suggested, therefore, that the state should create special measures to help enterprises handle these problems. They also cautioned against relying solely on "simplified, administrative orders" to promote the system. Some participants viewed this system as an interim measure in the ultimate goal of making production enterprises independent of agents in their interaction with foreign partners.

LABOR

Labor Export Earnings Soar in 1988
40060471

[Editorial Report] On 2 Feb 89, Beijing JINRONG SHIBAO in Chinese gave front-page coverage to a report on China's 1988 outstanding performance in labor exports. According to the Ministry of Foreign Economic Relations and Trade, China recorded 1,650 contracts in 1988 valued at \$1.832 billion, a 5.72 percent increase over 1987. In order to capture a larger share of the international labor market, China is trying to adopt modern managerial skills and to send more qualified workers abroad. By increasing the proportion of highly skilled technical personnel it sends overseas, China has increased its competitiveness in the international labor market. By the end of 1988, some 68,000 Chinese workers were overseas.

To date, Chinese companies have established business relationships with 118 countries and regions including the Soviet Union and several East European countries. They have expanded their categories of export labor from housing construction to the metallurgy, coal, mining, and petroleum industries and port and bridge construction. This has enabled them to combine their labor exports with exports of complete sets of equipment and technology and has also provided international exposure for China's domestic products.

AGRICULTURE

Chemical Fertilizer Plant Policy in Anhui
40060463f Hefei ANHUI RIBAO in Chinese
18 Mar 89 p 1

[Summary] Beginning in 1989, Anhui Province will provide 30 million yuan annually to renovate small chemical fertilizer plants, and small chemical fertilizer plants will be exempt from taxes until 1990.

Anhui Farm Supplies
40060463e Hefei ANHUI RIBAO in Chinese
22 Mar 89 p 2

[Summary] In 1989 Anhui Province will need 6.5 million tons of chemical fertilizer, but will be able to provide only 5.2 to 5.3 million tons. Anhui will need 55,000 tons of pesticides (of this amount 35,000 tons will be sold and 20,000 tons will be reserves), but only 35,000 tons can be supplied.

Jiangsu Oil Crop Area
40060501a Beijing NONGMIN RIBAO in Chinese
15 Mar 89 p 2

[Summary] In 1989 Jiangsu Province planned to sow 8 million mu to rape, but the actual area is 7,170,000 mu, an increase of 1,090,000 mu over 1988. The area sown to peanuts and sesame in the fall will be 1,960,000 mu, the same level as 1988.

Qinghai Peasant Income
40060501b Xining QINGHAI JINGJI BAO in Chinese
16 Mar 89 p 1

[Summary] In 1988 peasant per capita net income in Qinghai was 492.82 yuan, an increase of 100.67 yuan over 1987. In 1988 the number of households earning less than 200 yuan accounted for 9.77 percent of rural households, a 8.22 percent decrease from 1987; the number of households earning 200 to 500 yuan accounted for 52.89 percent, a 4.89 percent decrease; households earning 500 to 1,000 yuan accounted for 29.56 percent, a 13.12 percent increase; and households earning over 1,000 yuan accounted for 7.78 percent, a 4.45 percent increase.

Crop Area in Qinghai

40060501c Xining *QINGHAI JINGJI BAO* in Chinese
13 Mar 89 p 2

[Summary] In 1989 the estimated crop area in Qinghai Province will be 7.8 million mu, an increase of 85,500 mu over 1988. The area sown to grain will be 5,913,000 mu, an increase of 127,200 mu. The area sown to cash crops will be 1,533,000 mu, a decrease of 67,300 mu. Of this area, 1,531,000 mu will be sown to oil crops, a decrease of 65,400 mu. The area sown to vegetables, green manure and other crops will be 360,000 mu, an increase of 31,600 mu.

Shanxi Cultivated Area

40060463c Taiyuan *SHANXI NONGMIN* in Chinese
7 Mar 89 p 1

[Summary] At the end of 1988, the cultivated area in Shanxi Province was 55,599,400 mu, a decline of 190,900 mu from 1987.

Sichuan Rural Savings

40060463d Chengdu *SICHUAN RIBAO* in Chinese
23 Mar 89 p 1

[Summary] At the end of February, rural savings in Sichuan Province totaled 10.091 billion yuan. In January and February, rural deposits increased by 665 million yuan.

'Indiscriminate' Issuance of Professional Certificates

40050350b Beijing ZHONGGUO JIAOYU BAO
in Chinese 18 Feb 89 p 3

[Article by Chen Changxiao 7115 2490 1321 of the Central China Electric Power Administration: "Professional Certificate" Education Should Guard Strictly Against False Promises and Indiscriminate Enrollment and Management of Schools"]

[Excerpt] Since the 1986 National Adult Education Work Conference propounded the "professional certificate" educational system, practice has proved that this reform has played an active role in correcting the tendency to overemphasize school credits and diplomas, thus guiding staff and workers to study professional skills that suit their line of work and improving the quality of professional backbones in key positions. However, as "professional certificate" education gradually spreads from a few points to all areas, a phenomenon characterized by false promises and indiscriminate enrollment and management of schools has appeared in society. Its manifestations are mainly as follows:

1. Changing the nature of "professional certificate" education and using school credits as bait to appeal to more prospective students. In an enrollment notice of "professional certificate" in a national newspaper, a certain university promised: "Those who qualify after study will be given state-certified college credits." This is an open violation of the written regulation of the State Education Commission and the Ministry of Labor and Personnel that "professional certificates are not the same as college diplomas."

2. Willfully widening the scope of targets of "professional certificate" education. Some schools' enrollment regulations do not mention anything about the important condition that "professional certificate" education is designed for workers at major professional positions (or jobs) who have no college degrees but whose positions and jobs indeed require one. By doing so they in fact have widened the scope of enrollment, causing workers whose positions and jobs do not require a college education to swarm to the door of college-level "professional certificate" education.

3. Willfully lowering the requirements of enrollment. Here I would like to cite one example, which is more than enough to give you a general idea of this problem. A newspaper, a magazine, and a college (abbreviated as two agencies and one college) put a joint ad in the newspaper on enrollment requirements for a "professional certificate" correspondence program they sponsored. The State Education Commission stipulated that applicants "should be high school graduates." The two agencies and one college changed it to read that applicants should "have equivalent to high school or above secondary vocational school education." The State Education Commission stipulated that applicants "should

have over 5 years of professional work experience at their jobs and that which they study must be in their professional areas." The two agencies and one college changed it to read that applicants "should be currently employed management personnel who have over 5 years of work experience." Of course, attracting students by advertising in newspapers and lowering enrollment requirements, as in this case, is probably not that common. But in the actual process of enrollment, problems are much more serious.

4. Paying tuition first and taking entrance "exams" later. This ought to be considered the most ingenious of all money making tricks. Some enrollment ads introduced "the latest" enrollment method: Correspondence tuition and miscellaneous charges for 2 years amount to 400 yuan which should be paid in full in one lump sum payment. "After tuition and miscellaneous payments are received, a review outline will be sent to the students taking the exam. The exam will be organized by the students' units. Tuition and miscellaneous payments will be returned to those who fail the exam."

5. Giving entrance examinations perfunctorily. Some schools review outlines in the morning, and everybody is happy at the examination in the afternoon. Some schools mail examination papers to students' units and let them take care of the exam. Some even have the effrontery to declare: "Letters of admission will be sent in the order of registration."

6. Managing schools in disregard of conditions. The state stipulates that only institutions of higher education and workers' universities registered with the State Education Commission are allowed to open college-level "professional certificate" courses. Currently some non-educational units in society want to catch up with the fashion and have started a sideline business of "professional certificate" correspondence courses. Some of them are on such a large scale that even famous universities cannot compare with them. Some run big ads, trying to enroll students from all over the country. The target of enrollment is set at 5,000 students. As for how to set up correspondence stations, how to give lectures to these 5,000 students, and how to do practice teaching, there is no explanation.

The above manifestations are just emerging, but they are very likely to spread. What caused such a phenomenon? I think there are mainly three reasons:

1. Failing to clearly understand the nature and purpose of the "professional certificate" system. Many people equate it with school education or a supplement corresponding to school education. They think that as soon as they get the certificate, they will enjoy all treatments, including wages, that are enjoyed by people with corresponding school education. Under the guidance of such thinking, "professional certificate" education, the "best

shortcut" to getting school credits, appears to be very attractive to many people. Some have been driven to enroll and take the examination blindly.

2. Failing to coordinate and synchronize the "professional certificate" system with personnel structural planning and on-the-job training. Quite a few units lack scientific forecasting and planning to meet the demands of various kinds of people. Especially because on-the-job training has just started, standard requirements for most jobs have not been worked out or actually implemented. As for which position needs college-level professional know-how and skills and which does not, they are not sure. Therefore, leaders in some units have to treat everybody equally and give the go-ahead to all workers of different positions who are anxious to take "professional certificate" education.

3. Overemphasizing profit making in the management of schools. Although they are aware of the nature and purpose of "professional certificate" education, a few schools proceed from personal and small group interests and ignore the conditions of school management in order to rake in more money. They even use school credits and wages as a means to solicit enrollment, forgetting everything about the quality of teaching. [passage omitted]

Restructuring of Legal System Seen Necessary for Further Reform

40050204 Shanghai FAXUE [JURISPRUDENCE] in Chinese No 12, 10 Dec 88 pp 1-4

[Article by Correspondent Shi Binhai 2457 3453 3189: "Re-Examination and Restructuring of China's Legal System—a Record of Inquiries by Some Scholars in the Capital City"]

[Excerpts] Wu Jialin [0702 1367 7792]

A strange phenomenon has occurred in recent years, namely that once the mistaken advocacy of "wanting the rule of man and not wanting the rule of law" became bankrupt, the term "legal system" was commonly used, but the term "rule of law" was shunned. Of course, the meaning of "legal system" was interpreted broadly as "having laws to rely on, the need to depend on laws, the need for strictness in law enforcement, and the need for violations of the law to be investigated and dealt with." One might say that the term "legal system" contained the sense of "rule of law," but that it was not as crisp or as clear-cut as "rule of law." Why is it that law schools offer a course titled, "History of the Chinese Legal System," but do not offer a course titled, "History of the Rule of Law in China"? Some law textbooks say that "the legal system is premised on and founded on democracy." This formulation is not very precise, because in slave society, and in feudal society, wasn't there a legal system despite the absence of democracy? The term "rule of law" is probably avoided because as soon as it is used, the term "rule of man" comes to mind, causing

people to reflect historically on the "rule of law" and the "rule of man" [in China], and come to their own conclusions. This may be more than some people can face.

At all times and in all countries, there have been two ways to rule a country, one by the rule of law, and the other by the rule of man. In the rule of man, man is higher than the law; power is greater than the law; and the law is subject to man, the ruler personally being the supreme authority. By contrast, the rule of law follows different lines in which the law is higher than man, the law is greater than power, and all people are subject to the law, the constitution and laws being the supreme authority. The two are as different as night and day. Today, following the catastrophe of 10 years of Cultural Revolution, no one dares openly advocate the rule of man; nevertheless, among some leaders and in some jurist circles, a "combination rule of law and rule of man" idea in which the rule of man and the rule of law can be combined, the one augmenting the other, the rule of law being paramount and the rule of man being ancillary, is still popular and has a certain market. Can the rule of law and the rule of man be combined? I think not. A combination would be a simultaneous sanctioning of the rule of law and the rule of man, and a sanctioning of a backward and antiquated thing. It would be like supposing that in married life being legally married and having extramarital affairs can be combined, thereby sanctioning the reasonableness of extramarital affairs.

Why is it that so many things can be combined, but the rule of law and the rule of man cannot be combined? It is because the two are incompatible. Can "law higher than man" and "man higher than the law" be compatible? Can they be combined? The rule of law is a product of the bourgeois revolution; it is a negation of the rule of man. Only by upholding the rule of law is it possible to reflect the democratic character of the socialist legal system. Nevertheless, some of our leaders suppose that to write the words "rule of law" in a document is tantamount to acknowledging that we practiced the rule of man for a long time and did not practice the rule of law. Why do they shy away from the rule of law? To say it like it is, they are afraid to reveal the reasons for the past practice of "rule of man." If they do not have the courage to face up to the past, how can they have the courage to deal with the future? As to the question of which is better, the rule of man or the rule of law, the history of many countries, including China and the USSR, has reached an impartial conclusion, so why should we adopt ostrich-like policies!

The practice of the rule of law is founded on political democracy. Without political democracy, there can be no rule of law. Of course, democracy also requires support from the rule of law. In the practice of the rule of law, we should and can do better than capitalist countries. In fact, however, we have not done as well. This point should be courageously acknowledged. During the Cultural Revolution, even the right to freedom of the

president of the country himself could not be guaranteed, to say nothing of that of the common people. Mistakes made with regard to democracy and the rule of law merit conscientious re-examination. There are numerous reasons, economic, political, historical, and current, for China's poor performance in the rule of law, but the fundamental reason is "failure to abide by the law, with violations beginning at the top." Therefore, the leaders are responsible. It should be acknowledged that at the present stage many instances of the rule of man continue to exist, but they cannot be sanctioned by the "combination theory." Instead, effective action must be taken to change this state of affairs. Specifically, there should be correct handling of relationships in five different regards, as follows: The first is the relationship between the party and the law. The party should act within the limits set by the constitution and laws. In fact, rather than only paying lip service, it should willingly accept supervision and limitations by the constitution and the law. The second is the relationship between the government and the law. Policies must be subordinated to the law instead of laws being subordinated to policies as, in fact, is the case at the present time. In particular, the law cannot be cast aside whenever an emergency is confronted, complete reliance for the handling of matters being placed on policies. Third is the relationship between authority and the law. A mechanism that restricts authority must be established for fundamental resolution of the relationship between authority and the law. Fourth is the relationship between sentiment and the law. Sentiment cannot be allowed to substitute for the law. Abuses such as bending the law for the benefit of relatives or friends, putting human relationships before the law, and relying on a network of associates in enforcing the law must be rooted out. Fifth is the relationship between reform and the law. Reform should not conflict with the law. In cases of conflict, procedures should be followed. The so-called "detouring around red lights" is a classic mistaken idea that hurts the unity and authority of the legal system. Only when the foregoing relationships are handled well can there be any prospect of practicing the rule of law. Unless abuses in the current system of the rule of law are abolished, there will be no way to handle the foregoing several relationships properly. Therefore, genuine reform of the political system instead of just going through the motions is the key to China's entry into the ranks of nations ruled by law.

Yu Haocheng [0060 3185 2052]

10 December 1988 marks the 40th anniversary of the United Nations General Assembly's passage of the "Universal Declaration of Human Rights." This declaration begins by declaring that "all people are born free, and have equal dignity and rights." Article 30 also proclaims a series of citizen, political, economic, social, and cultural rights that all countries and all individuals should strive to promote and respect, and make generally recognized.

During the past 40 years, the human rights issue has been a hot topic in contemporary international politics. What

is difficult to understand is that in China this issue has become virtually a forbidden zone. This is true even though the human rights of the country's president could not be guaranteed during the 10 years of turmoil of the Cultural Revolution, and Communist Party member Zhang Zhixin [1728 1807 2450] was jailed, imprisoned, sentenced to death, and had his throat cut cruelly before the sentence was carried out simply for upholding his political views. Similar cases are simply too numerous to mention. Nevertheless, some people close their eyes, refuse to acknowledge such matters, and flatly deny that China still has a human rights problem. For a period of time, newspapers and periodicals carried a large number of articles on "criticizing human rights"; later on, humanitarianism was singled out for criticism for a time. In short, everything containing the word "human," such as human nature, human rights, and humanitarianism were treated like patented products of the bourgeoisie as though only the bourgeoisie cared about human rights, while the proletariat did not care about human rights. Such a mistaken perception and preposterous methods interfere greatly with the building of democratic politics in China.

China is a signatory nation to the United Nations' "Universal Declaration of Human Rights," and though China's delegates have done no small amount of beneficial work in some international conferences, China nevertheless always shies away from discussions of human rights issues and tries to avoid them. Consequently, it has sunken into a passive situation. In some international conferences, guaranteeing human rights has become a generally recognized principle of international law, but we frequently use the pretext of not allowing other countries to meddle in our internal affairs in order to refuse discussion of the human rights situation in China. But this pretext is spurious, because people can counter with the question: Since human rights is a domestic issue, why do you constantly issue statements condemning racial prejudice in South Africa? Cannot South Africa also say that this is a domestic issue and refuse to allow other countries to interfere? Actually, we are entirely justified in saying, first of all, that some foreigners are not qualified to talk grandly about guaranteeing human rights inasmuch as they helped China's warlords, bureaucrats, compradores, and landlords butcher millions upon millions of Chinese. A sign hung outside the entrance to parks in old Shanghai and elsewhere that read, "Chinese and Dogs, Keep Out," was a serious insult to Chinese dignity, so what qualifications have those who put up such signs to lecture China about human rights? Second, it should be pointed out that the trampling of human rights in China during the Great Cultural Revolution, as well as some transgressions of human rights at the present time, are not produced by the socialist system per se. Rather, they are the result of a departure from socialist principles, and once such phenomena are discovered, our party and government always act conscientiously to correct them. It must be recognized that because socialism is not something that can be built perfectly and without blemish in a short

period of time, a constant process of perfecting it is required; and because the superstructure of socialism still contains some places that have yet to be perfected, because certain links in the state system still have deficiencies, and because the legal system is still not complete, some of the people's democratic rights cannot yet be reliably guaranteed. We not only do not have to present a false picture or flatly deny that human rights problems continue to exist in China, but we should face reality squarely, uphold and constantly perfect the socialist system, hasten the pace of political system reform, genuinely promote democratic politics, build a sound legal system, and resolutely struggle against all infractions of the law and violations of human rights. This is a necessary condition for our standing among the civilized nations of the world.

Zhang Xianyang [1728 7359 2254]

Ten years of building the legal system merits a review. The question today is where is the foothold for the new round of legal system building, and where is the penetration point? I feel that the key lies in the need for reform of the line of thinking about the legal system, the goal of the legal system being changed from having the state as a premise to having citizens as a premise, and changing the state standard to the citizen standard. This merits jurists' consideration. A hard look at realities in the 10-year building of the legal system shows we have lost an opportunity about which we should have had a choice. However, during the next 10 years, there will be a turning point, but any delay or vacillation may spell an end to the restructuring of China's future rule of law.

We have already suffered enough of the bitter consequences of "worship," but it seems we will have to go on suffering. Isn't that so? Worship of the party and worship of the state have become possibly too glaring in legal documents about the legislative process. If it isn't the supremacy of the law, it's the supremacy of the party or the supremacy of the state. What is the result of this? It can only strengthen the party and the state, and obscure both the citizens and the citizen's subjective will. Numerous comrades in the party realize the harmfulness of these kinds of "worship." The intense rivalry between the new and the old systems requires a separation of the party and government as part of system reform. However, separation of the party and the government does not mean that the government's hand will be strengthened to guide legislation. This runs counter to contemporary legislative thinking. It can only lead to a big cycle in which the party and the government take turns guiding legislation. If this happens, human rights will become an extremely conjectural proposition. Can you say that that is the people's will? It is because of this that we are very greatly limited and little protected in our guiding thought for legislation. Democracy and freedom should be given more of a free rein as a result of legislation, and this was, in fact, the original intention of Marxism in the emancipation of human nature.

Experience shows that it is entirely possible for there to be differences between scientific spirit and party spirit. If one who functions only as a party legal theoretician explains and summarizes the appearance and essence of law, he will obey the party's will and represent the spirit of party documents. If a free social scientist or jurist does so, he will explore and think beyond the spirit of the document. His greater degree of freedom will frequently mean that his scientific spirit will seem a little firmer. We ought to recognize this objective fact. This historical experience enables us to better understand why the road traveled in 10 years of building the legal system has been a bumpy one, and why no one had the courage even to criticize the guiding thought of Stalin in the constitution, simply characterizing the constitution as being the "result of...consolidation," and distancing themselves from even the principle of no "presumption of guilt" once the political atmosphere changed. With the thinking of jurists being controlled by such a state of affairs, there can only be more mechanicalness in thinking, and more fear and trepidation and bowing and scraping in action.

Zhang Zonghou [1728 1350 0624]

In view of the appearance of inflation, loss of control of macroeconomic regulation, and the corruption of authority in reform of China's economic system, it is necessary to take time out to bring the economic climate under control and to rectify the economic order. It is also necessary to strengthen administrative authority and to build up the state's macroeconomic regulatory functions in economic life within a certain period of time. This is a road that virtually all countries must take when they encounter inflation. However, failure to realize that these are only temporary measures, and that our goal remains the strengthening of administrative control over enterprises through improvements in the legal system and the deepening of reform may mean a return once again to the old road of an undiversified economic domain.

The present rectification of economic life amounts to calling a "temporary halt" to overheated economic growth. The surface reason for this action is the appearance of inflation, but the real reason is lack of rules for competition, and confusion in refereeing the ball game. Development of a commodity economy is like a game of soccer, enterprises being the players, the market the playing field, and government the referee. The numerous laws, rules, and regulations that we made in the past were for the operation of a product economy. Now that we are engaged in running a commodity economy, we lack rules and regulations suited to the patterns of a commodity economy. We are using volleyball rules to regulate the soccer playing field, so it is no wonder that there is chaos. The lack of rules and regulations for competition is attributable primarily to the lack of rules and regulations for refereeing (lack of a fully developed system of administrative rules and regulations for curbing administrative

authority). As a result, "official profiteering," "official corruption," "usurpation of authority," and such strange events in the confused refereeing of the game have occurred.

The way to solve the problem is to establish rules and regulations before beginning the game, allowing the legal system to become engaged in advance.

Therefore, I believe that the problem is not a frightening one; what is frightening is not knowing where the slippages have occurred. Numerous facts tell us clearly that when abuses occur in the rule of man, continued strengthening of the rule of man cannot be used to solve them. Take, for example, administrative expenses. Every year for the past several years, a call has been made to reduce them by so much, but year after year they increase rather than decrease. Another example is in foreign trade. The central government leaders have repeatedly declared openly that rectification is for the purpose of further opening to the outside world, and that it is necessary to ensure that foreign contracts are honored. Nevertheless, administrative departments concerned constantly alter policies as a disguised means for suspending or annuling contracts. Why can we not formulate a complete set of rules and regulations to ensure fair competition and the honoring of foreign contracts?

Further readjustments are currently underway in the international economic structure. The "Greater China Economic Sphere" and the "Asia-Pacific Economic Sphere" are also in the discussion stage. This is a favorable opportunity, which, if not seized, will be fleeting. Internal frictions, infighting, power struggles, and policy mistakes positively may not be allowed to botch the Chinese people's opportunity for getting aboard the "last ship" to modernization. The economic problems we are experiencing have their source in politics; the slackening of political system reform planted the seeds of trouble in economic development. We must understand this situation clearly, and use the opportunity that realignment presents to get going on political system reform (particularly the building of a democratic legal system). We have a helpful circumstance in that the rule of man relies for its maintenance on supreme authority. With the development of a commodity economy and democratic politics, a person holding absolute authority cannot appear in China again, and this impels a quest for the truly supreme authority in modern society, namely the constitution and laws. Judging the hour and sizing up the situation, elevating the law, and building a society ruled by law is the only way in which China can get out of its predicament and take a new road. One matter requiring vigilance is that should reform encounter difficulties, those who were never very enthusiastic about reforms must not be allowed to use mistakes in reform as a pretext for rejecting reform. It is also necessary to resolutely guard against a situation such as occurred in the Soviet Union of 20 years of stagnation following Nikita Khrushchev. Our people will not stand for delay!

Ge Yang [2047 2254]

Just what is the way out for reform. When people agonize about reform, I think no one wants a halt in the pace of reform, because otherwise, China will have no future. Now that reform has come to the state it is in today, I have also thought about it and made some choices. Suddenly I want to shout out the appeal: Let the people handle it! This is the way out for China's reform. The people should run scientific and technical endeavors, and they should run cultural endeavors too. An independent interest stratum should be founded on civilian operation, with a gradual transition to the formation of a mechanism for curbing authority. Let civilian operation take the place of official operation. This is what a commodity economy society is.

What is the basis for civilian operation? It is a process of development of democracy and the rule of laws. The basic situation in the country today in which the specter of feudalism cannot be dispersed constitutes the greatest stumbling block to the building of a democratic society ruled by law. The democracy and rule of law about which we speak today is a democracy and a rule of law in a sense that still protects the elevation of authority while simultaneously eliminating freedom and democratic rights. Therefore, even though one hears calls for the elevation of the law, they seem very weak, and people may easily suspect that these calls are made in vain.

Nowadays, newspapers and periodicals call for the supervision of public opinion virtually every day, but can supervision by public opinion really be mustered? The public opinion that can be mustered cannot supervise, because it lacks the protection of a supervisory organ. Such supervision that public opinion is able to exercise is only trifling; it is of no real consequence. Under such a system of "supervision by public opinion," those who are really involved in corruption will just quietly avoid the strictures of society and the law, and the investigation and placing of blame. This is not in keeping with the original intent of our supervision by public opinion. A very strange phenomenon exists today in which there is both much calling for supervision by public opinion while, at the same time, there is a steady growth in bureaucracy and official profiteering. Why is this? In the final analysis, it is because it is an official supervision by public opinion. So long as it is "official" and not "civilian," this so-called supervision by public opinion can only be a deformity generated by the old system.

If public opinion is to supervise, it will have to have its own mechanism improved, and the greatest force for improving it will come from civilian operation!

Elementary, Middle School Dropouts Increase
40050350a Beijing ZHONGGUO JIAOYU BAO
in Chinese 16 Feb 89 pp 1, 2

[Report: "We Must Resolutely Stop the Loss of Elementary and Middle School Students"]

[Text] In a recent press statement on the issue of the loss of elementary and middle school students, Vice Minister of State Education Commission Liu Bin pointed out: In the past 2 years, the number of elementary and middle school dropouts has increased. This phenomenon is more serious in areas with developed commodity economies. According to 1988 statistics, 4.28 million students dropped out of elementary schools, accounting for 3.3 percent; 2.87 million students dropped out of middle schools, accounting for 6.9 percent. The State Education Commission has issued a circular "Several Opinions on the Issue of Strict Control of Elementary and Middle School Dropouts," hoping that all localities will enforce it conscientiously and strive to bring the dropout rate under the level of normal years.

Liu Bin said: The loss of elementary and middle school students is caused by many factors. The first one is that since the development of the commodity economy in some areas, some collective and private enterprises have hired large numbers of child laborers to gain more profits; some parents, considering only immediate interests, have forced their children to quit school and go to work, become apprentices, engage in business, or do house work. The second factor is unfair social distribution and the reverse of income of manual and mental labor. A new "education is useless" theory has appeared in society. Many people think that it is "more practical" to find a job as soon as possible than to go to school for a long time. The third factor is that the education endeavor itself has some problems that urgently need to be resolved. For instance, in some areas, schools over-emphasize the proportion of students admitted to higher grades of school. They concentrate only on top students and fail to show adequate concern or provide adequate help for the majority of students. The unitary teaching method and impractical teaching materials have caused some students with learning disabilities to lose interest in study and move from hating school to quitting school. In other areas, schools collect excessively high fees of all kinds, forcing students from poor families to quit school. The fourth factor is that some people misunderstand the reform under which future college graduates will face dual-orientation choices and the state will stop unified assignments, adversely affecting students' faith in schooling.

Liu Bin pointed out: The loss of elementary and middle school students is bound to generate a large number of new illiterates, which will seriously lower the quality of Chinese laborers and the quality of the whole nation and will hinder the historical progress of China's socialist modernization. We must adopt effective measures to stop it. First of all, we should improve the understanding

of basic education of all parents and of cadres at all levels. Basic education has a slow effect. Things a person learns between ages 6 or 7 and 15 or 16 may not become useful until he or she becomes an adult and starts work. Basic education also has a long-term effect. Basic knowledge and training that a person receives during his or her childhood may be used throughout his or her life. Forcing children and youth to quit school in order to gain immediate benefits and achieve instant success is harmful to the life-long growth and development of children and youth, and detrimental to the improvement of the quality of the whole nation.

We should conscientiously implement the "Law of the People's Republic of China on Mandatory Education." We cannot find a fundamental solution to the elementary and middle school dropout problem unless the government, all circles of society, households, and schools strictly carry out their duties and responsibilities as stipulated by law, and all cadres and masses establish the concept of implementing mandatory education according to law.

We should conscientiously carry out "The Circular of Strict Prohibition of the Use of Child Labor" formulated by six departments including the Ministry of Labor and Personnel and the State Education Commission. If any township enterprise and unit and individual industrial and commercial household is found to employ school-age children and youth in factories or stores in violation of state law, it must be investigated and dealt with immediately. Labor, industrial, and commercial management departments must punish, according to law, those units which have employed child labor and the responsible persons of such units. Those whose cases are serious and who refuse to mend their ways after being told to do so should be ordered to close down until they straighten things out. Or they could lose their business license for it. Foremen who have tricked and mistreated child laborers should be investigated to find out their criminal responsibilities according to law.

Liu Bin emphasized: Education departments and elementary and middle schools should further rectify educational principles, deepen the educational reform, and improve educational quality on a broad scale. Principals and teachers should resolutely implement the state's educational principles and earnestly teach and zealously help those students who have learning disabilities or suffer from character or academic flaws. The number of students to be held back must be strictly controlled. Students who suffer from character or academic flaws must not be discriminated against or rejected, still less should they be deprived under any circumstance of their right to go to school. Elementary and middle schools should reform teaching methods and materials in light of actual conditions and properly integrate cultural and scientific education with labor and technical education. Teaching materials should be gradually reformed. All localities must add some materials that reflect local conditions and suit local needs so as to meet the needs of local society and masses.

The majority of dropouts are girls in rural areas. County and township governments should organize mass organizations, such as the All-China Women's Federation, and village committees should strengthen propaganda and education among students and the masses and mold public opinion to stress education for girls. In view of girls' actual problems in attending school, educational departments and schools should adopt a variety of flexible teaching methods to help them learn some practical skills while receiving basic education.

All localities must strengthen the management of school fees. Fee standards must be set by provincial, autonomous regional, and municipal governments in accordance with actual conditions. No school is allowed to make up their own charges, set their own standards, or collect fees indiscriminately.

Liu Bin pointed out: It is necessary to establish a responsibility and inspection system. Governments at two levels—county and township—have greater responsibility in solving the elementary and middle school dropout problem. Principal responsible persons of concerned departments and government organs should establish a responsibility system. Under this system, failing to investigate, analyze, deal with, and report to higher levels losses of elementary and middle school students is considered a dereliction of duty; so is failing to adopt necessary measures and do a good job on the part of principals, teachers, and other relevant personnel. People who have committed dereliction of duty should be criticized and educated. Those whose cases are serious should be investigated and held responsible.

Liu Daoyu on Factors Behind Lack of Interest Among Students

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22 Feb 89 p 5

[Interview with Liu Daoyu 0491 6670 3768 by RENMIN RIBAO reporter Zhou Qing 0719 1987: "Social Factors Encourage the Idea That 'Schooling is Worthless'"]

[Text] Two factions have appeared among the students of a certain high school in Beijing: the "TOEFL" [Test of English as a Foreign Language] faction which consists of those who devote themselves to passing the test as a way to leave the country, and the "Mah" faction which consists of people who play mahjong into the wee small hours on the blanketed floor of the hallway. Reportedly many high schools have seen large numbers of students quitting to go overseas, dropping out, playing mahjong, going into business, and dating. Some schools have even been hit by a wave of gambling. This shows that the idea that "schooling is worthless" has really caught on. You have been a school principal as well as a chemistry professor. Recently you have also been writing a book on education. What do you think has made "schooling is worthless" so popular?

[Liu Daoyu] The primary causes have to do with society and schools, not the students. First, young students have a burning desire to concern themselves with national affairs. When such a desire is not appreciated or properly guided, when the students meet with more social criticism than expressions of support, they feel frustrated. Such frustration often manifests itself as a kind of cynicism.

Second, knowledge is worthless in society today. It makes no difference whether you go to school or not. In fact, people who do not go to school make more money than those who do. Naturally, schooling loses its appeal. This is the tragedy of an ancient civilization. Since ancient times, people of insight have invariably advocated education, giving rise to many extremely moving stories and proverbs exhorting people to study. Of course there are also seductive sayings like "In books one will find houses of gold, beautiful women, and tons of grain." To sum up the significance of schooling as the pursuit of wealth and beautiful women has a bad effect. University students in the 1980's certainly do not interpret schooling in that light, but what they say about "there being only hardship and bitterness in books" is a matter of concern to society at large.

[Zhou Qing] True. The value system must in the final analysis be tested in the real world. There are two distribution methods in society today. One, paying workers according to the state's ability to pay. Two, paying them according to market prices. This happens in some joint ventures, private companies, and individual enterprises. Workers in the latter category make much more money than those in the former. Since most intellectuals these days work in state organizations, they usually fall into the low-income category. This problem should be resolved as soon as possible.

[Liu Daoyu] The third reason why "schooling is worthless" has become so popular is that college graduates have difficulty finding jobs. Everywhere we announce loudly and clearly that qualified personnel hold the key to the success of the four modernizations. Some localities have complained about a shortage of qualified personnel. At the same time, however, we have trouble placing graduates in jobs. Some of those who are given jobs are put in positions that do not match their expertise. A widespread phenomenon is this: Many important positions are occupied by young people the colleges would not accept. Because of their low caliber, the units often have to spend money training them. In contrast, the more outstanding college-educated young people could not find a suitable opening. The inevitable outcome is tremendous waste. Also, college students show little enthusiasm to study while those not enrolled in school lose their interest in schooling.

[Zhou Qing] During 10 years of reform, our society has had the twin problems of not having enough qualified personnel and not properly utilizing qualified personnel. What counts in personnel utilization is not so much

qualifications, knowledge, and abilities as are registered permanent residence, connections, and seniority. We have ignored the basic in favor of the incidental. Apparently we have yet to find a basic solution.

[Liu Daoyu] Apart from social factors, the obsolete and backward substance of college education and teaching methods is another important reason why students are uninterested in schooling. There is little in what an instructor teaches that is the latest scientific knowledge. He can neither solve the queries on the students' minds nor improve their social competitiveness. The instructor talks and the students listen quietly. This teaching method belonged in the days before paper-making was invented when students had no textbooks. But it has survived on our campuses to date. If I were to go back to college today, I would also be a bored student.

[Zhou Qing] You have identified four reasons behind the "schooling is worthless" mentality: student frustration, the worthlessness of knowledge, the difficulty of finding a job upon graduation, and poor teaching methods. They all make sense. Now that we are creating a socialist commodity economy, the law of value and the principle of commodity exchange will necessarily prevail in the relationships between education and society and between schools and students. This is something we cannot avoid. Then there is the challenge posed by the new technological revolution. How should we change the concepts, system, and status of education? This is a big issue yet to be addressed. The popularity of the "schooling is worthless" idea is one of the signs of such confusion. To put the idea to rest, we need to continue our exploration against the backdrop of reform.

[Liu Daoyu] That is right.